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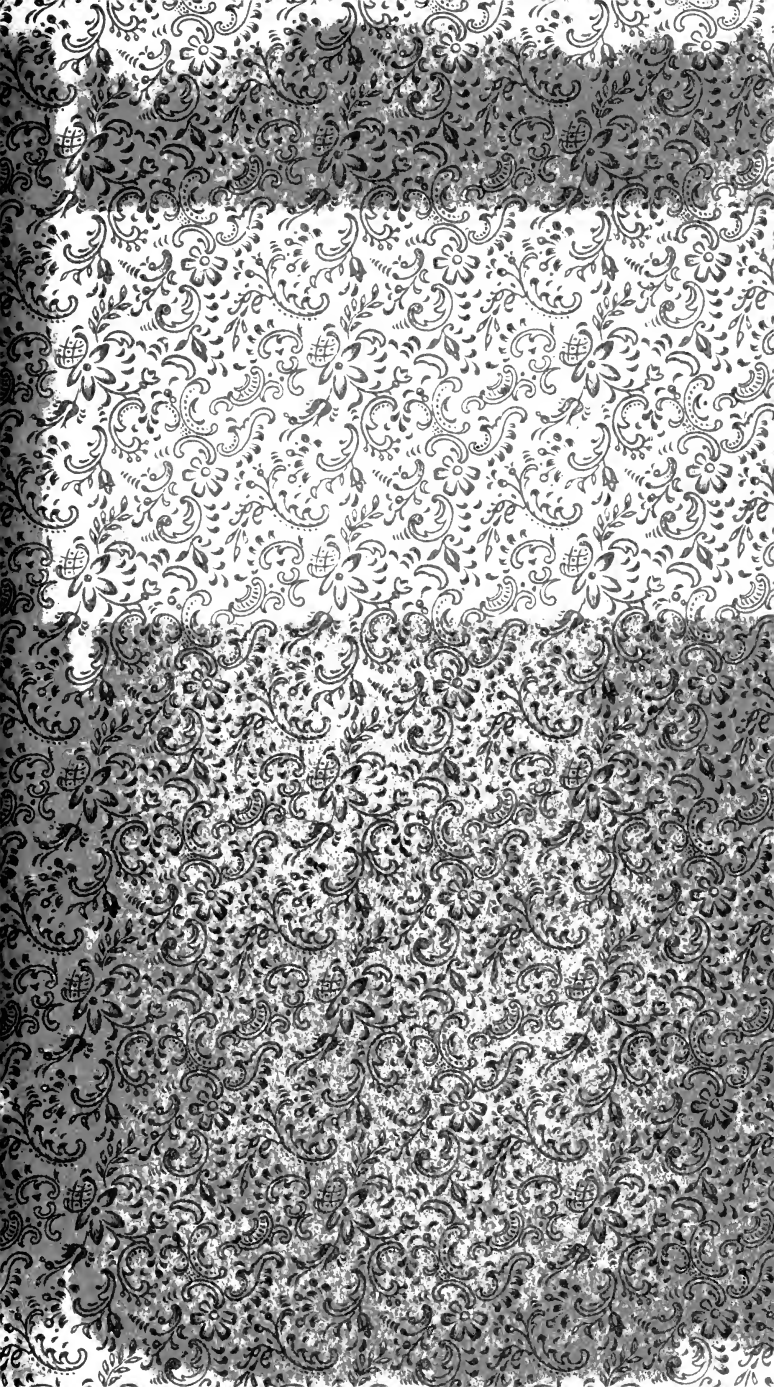
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LECTURES
ON
LIFE INSURANCE
VOLUME I.

Being Lectures and Addresses Delivered by

JOHN M. HOLCOMBE

President of the Phoenix Mutual Life Insurance Company



HARTFORD, CONN.

1908

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PREFACE

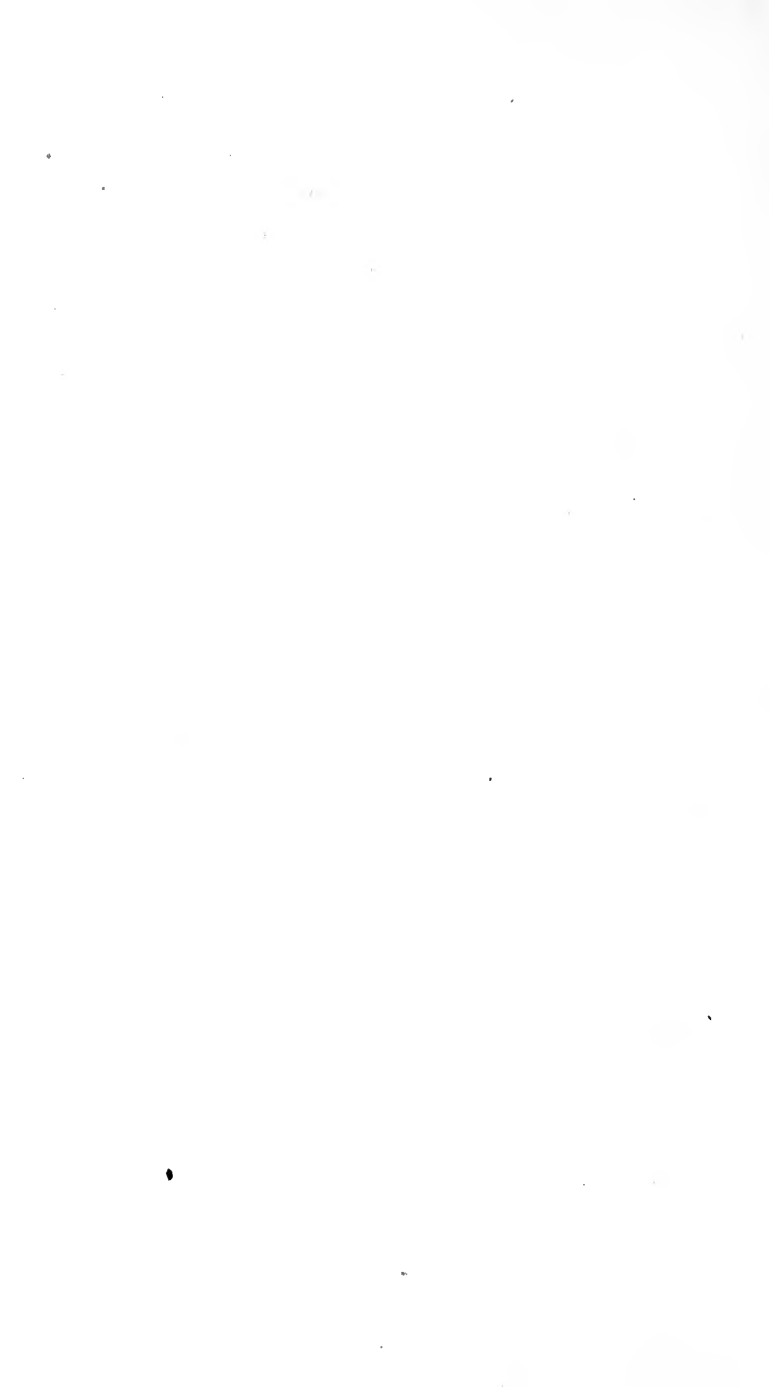
For a long period the beneficence of life insurance was so evident that people accepted truisms as truisms and came to insure their lives without troubling to analyze the system. As time went on, however, and a multiplicity of forms of life insurance was developed to meet special demands on the part of a few, comparatively speaking, the fundamental principles became clouded in the minds of many. Life insurance remains a benefaction and has progressed with the times. Fortunately, for one cause and another, the people have become more inquisitive concerning it and are seeking exact knowledge as to what it purports to do and the way in which it does it, in the most straightforward fashion.

It is in recognition of this most encouraging attitude on the part of the public that the recent lectures and addresses of President John M. Holcombe of the Phoenix Mutual Life Insurance Company have been collected and put in book form. They take up every phase of the great system in itself and in its relations to mankind in all their conditions and requirements.

This volume will be followed by others, hopefully, all published in connection with the Educational Department of the Company, which aims specifically to train agents in the right line of thinking and acting, for the good of the public as well as of themselves; since inasmuch as the public is now bound to get its information, the men who offer life insurance also must have it in a more complete form than ever before.

Acknowledgment is made of the courtesy of the *Yale Alumni Weekly* in permitting the use of the first three of these lectures from its "Yale Insurance Lectures, Volume I," copyrighted.

THE EDITOR.





OBSERVATIONS ON INSURANCE HISTORY

DEFINITION OF AN INSURANCE POLICY

(Delivered in Yale University Course)

A POLICY of insurance is essentially a contract for indemnity and not for profit, and its object is to relieve the individual from the heavy weight which would fall upon him through no fault of his, by distributing the burden over the community.

Insurance is a contract whereby one for a consideration undertakes to compensate another if he shall suffer loss. All that is requisite to constitute such a contract is the payment of consideration by the one, and the promise of the other to pay the amount of loss agreed upon in the contract to the person entitled to claim it, upon the happening of the contingency contemplated in the contract.

It had its origin in the necessities of commerce, it has kept pace with its progress, expanded to meet its rising wants and to cover its ever widening fields, and under the guidance of the spirit of modern enterprise tempered by a prudent forecast, it has from time to time with wonderful facility adapted itself to the new interests of an advancing civilization.

It is applicable to every form of possible loss. Wherever danger is apprehended or protection required, it holds out its fostering hand and promises indemnity. This principle underlies the contract, and it can never, without violence to its essence and spirit, be made by the assured a source of profit, its sole purpose being to guarantee against loss or danger. "Though based upon self-interest," says De Morgan, "yet it is the most enlightened and benevolent form which the projects of self-interest ever took. It is in fact, in a limited sense and a practicable method, the agreement of a community to consider the goods

of its individual members as common. It is an agreement that those whose fortune it shall be to have more than average success shall resign the overplus in favor of those who have less. And it has as yet been applied only to the reparation of the evils arising from storm, fire, premature death, disease and old age, yet there is no placing a limit to the extensions which its application might receive if the public were fully aware of its principles and of the safety with which they may be put in operation."

There exists in the minds of many a distinction between insurance on lives and insurance on visible property, on the ground that the former is simply an agreement to pay a fixed and arbitrary amount at the death of the insured, without reference to any actual damage, and the latter an undertaking of indemnity for loss. This distinction is not based upon a true comprehension of the real principles which underlie the policy of life insurance. In the one case the thing, the loss of which is made good or modified, is capital which produces income, and in the other it is a life with physical and mental vigor sufficient to produce an income over and above the cost of subsistence. Many lives do not possess these qualities, and it is only with those which do that life insurance in its legitimate field has to deal. The termination of a life which can produce a surplus income inflicts a loss upon some one, and the greater the probable length of such production, the greater the loss must be.

It is clear, therefore, that before the insurer can fix the sum to be received for the agreement to pay some amount at an indefinite future time, he must not only know the time when his promise must be fulfilled, but he must be sure that the life upon which it is predicated belongs to the class from which his calculations have been drawn.

A mortality table, therefore, necessarily preceded all contracts involving the length of a human life. The practice of registering births and deaths is a very ancient one, so ancient indeed that no record remains of what people first attained that degree of civilization which must precede the adoption of a plan only

possible in a stable and enlightened community. It is probable that records of this kind were kept by the early inhabitants of Asia and Africa, but it was in Rome that the first occasion, of which there is any authentic knowledge, arose for a reliable measure of the probable future lifetime of persons at various ages.

At the time of the reign of the Emperor Alexander Severus in the third century, it had been a custom of Roman testators to bequeath to legatees provision for life, but by the Falcidian law such legacies were prohibited from encroaching upon the one-fourth of the estate resulting to the heirs-at-law. To carry out this law, some estimate of life duration of the legatees, one with another, from a given age had to be formed. The Roman census enumerated ages of population and Rome had bills of mortality, and it was no doubt from these that the great jurist Ulpian constructed a table which gives evidence of much skill and discrimination. Its results are, under the circumstances, remarkably close to those reached some fifteen centuries later, when Dr. Price classified and moulded into a mortality table the registration of persons living and dying in Stockholm from 1755 to 1763 (which seems to have been the first accurate deduction ever made of the length of life in a city).

At age 30 the Roman *expectation of life* was about 25 years, and by Dr. Price's table about 22 years; at 50 the Roman table gives 10 years expectancy, Dr. Price's 14 years, and at 60 the former shows 7 years, the latter 10 years.

A careful and accurate record of births, deaths and marriages has been kept in the city of Geneva, Switzerland, since 1549, and is the oldest continuous register of this kind now extant. Many other similar records were established in different countries, but it was not until the beginning of the seventeenth century that they were general in Europe. Their adoption was no doubt the result of public necessity.

During the middle ages the ravages of war and pestilence rendered impossible any basis for valuing a human life, but when cities had become established

and governments were growing more secure, the value of records of the various happenings in the life of civilized communities naturally became more and more evident as the value of human life became more clearly the foundation on which must be built all that pertains not only to the commercial prosperity, but also to the happiness and well-being of the race.

The plague, which wrought such havoc in England, was probably the cause of the initiative step which was taken in that country in establishing those records which have made possible the institution of life insurance, for to it must be attributed the earliest bills of mortality. Within a period of seventy years, London had been visited by it five separate times, 145,000 having died from its collective attacks. It always seemed impending, for the intervals between its departure and return were sometimes only eleven years, and had never exceeded twenty-nine. The reports and even the fear of its approach were a commercial calamity, and in 1592, when more than 30,000 died of the disease, appalling as was the reality, the rumors were vastly exaggerated. An attempt to quiet public feeling by correctly indicating its progress was, therefore, made in the bills of mortality, and though they were not at first maintained consecutively, they were afterwards found so useful as to be continued from the 29th of December, 1603, down to the present time. While they served to correct some false notions, they were not made of practical and definite use until 1664, when John Graunt published a book on the population, which contained, as he stated, "a new and accurate thesis of policy built on a more certain reasoning than had yet been adopted." This work met with an extraordinary reception and stimulated the consideration of these subjects by thoughtful men.

He failed in an attempt to deduce a law of life from these records, because they did not specify the ages as well as the deaths of the people, for it was not until 1728 that the ages of the dead were introduced in the London bills of mortality. From his enumeration of his objects, it may be seen that life insurance was not contemplated by him, but he made

the earliest attempt to number the people, classify their callings and to ascertain the mortality among them, and he thus laid the foundation of this science.

The Laws of Chance came to be developed originally very much in the interest of the all-prevailing gaming which pervaded Europe during the seventeenth and most of the eighteenth century.

A yet higher class of mathematics soon afterwards elaborated the doctrine of mathematical probability. The application of these higher mathematical methods to the data supplied by the bills of mortality and other mortality observations led to the development of life contingencies.

While England was destined to be the country where the first correct principles of life insurance were to be developed, the data upon which its practice was built were taken from the registers of the town of Breslau in Silesia, which was the only place where a record of the ages of the dead was kept. In 1693 Dr. Halley, the Astronomer Royal, published the Breslau Table of Mortality, which was the first important step toward raising the doctrine of life insurance to a position to claim rank amongst the sciences. From the recorded ages in the Breslau register, he constructed a table of the probabilities of the duration of human life at every age, and he taught with great clearness the conditions needful for the formation of rates of mortality.

Long before this, contracts involving the risk of death within specified times had been entered into, but the premiums charged bore no relation to the hazard incurred, and however legitimate in their object they might have been, they were speculations.

Although the means were at hand at the beginning of the eighteenth century for the establishment of the institution of life insurance on a firm and legitimate foundation, it continued for many years to be of a speculative character. This was due no doubt to the temper of the times rather than to any other single cause. The purpose of the first attempt at associated operation was legitimate, although its basis was not very substantial. The movement at the beginning of

the eighteenth century was clearly intended to be in the direction of permanence, but the very attractiveness of the features of the business rendered it a prey to unscrupulous adventurers.

The earliest project of associated life insurance was made in 1699, and was called "The Society of Assurance for Widows and Orphans." This scheme had so many of the elements of modern insurance that those who originated it must have had a pretty clear idea not only of its necessities from a financial point of view, but also of its obligations from a moral standpoint. It was to commence as from April 6, 1699, and registers were to be kept in some public place in London. In these were to be entered the name and age of each subscriber, the names and ages of his wife and children, or of any other persons to be provided for, together with the claim of every widow or person made upon the society, and the sum paid upon such claim. These books were to be open to the examination of subscribers, and all matters were to be heard and determined by thirteen persons who were named and who were all persons of good social position. Persons entering were to sign the deed and within six months were to appear at the office before three or more trustees and have their policies approved and signed by the secretary in their presence, at which court every subscriber should, if required by the trustees or by the master of the office, produce a certificate of his age and also an affidavit that he had not any known distemper upon him, and that he was in a very good state of health, and that the trustees should have power to refuse the person if it appeared he was sickly or infirm, or did not produce the certificate, or that in any other respects he was not qualified for membership. Any person of the clergy or laity, "excepting such as live in the marshy and unhealthy parts of England," might be admitted by proxy if known to the trustees or to the master of the office, or to some two subscribers or substantial housekeepers living within the bills of mortality as a person of good report; also not above 50 years of age, and also a certificate signed by the ministers of three neighboring parishes, testify-

ing that they did believe him to be in health, and of such age as he declared himself to be. There was also a provision that in case of persons who had become members becoming soldiers and dying in warfare, or dying at sea, or in foreign parts, all interest in the society and its funds was to be forfeited.

In 1704 there were 600 members, in 1705 there were 908, in 1707 there were 1104.

Early in the working of the scheme the age of entry was reduced from 50 to 45 and notice was given that "When the society shall consist of 1200 it is designed to be reduced to 40, when of 1600 to 35, when it is full to 30 years of age," the number being limited to 2,000. In one of the prospectuses issued about this time appears the idea of family protection, which is now, as it was then, the chief reason for the existence of the institution of life insurance. It was expressed as follows: "If the subscriber be a clergyman that has a good living or one that has good business or that has an office whose salary and perquisites are considerable, his family is morally secured of a good subsistence. As long as the subscriber lives they have his income to depend upon, and at his death £500"; and it added, "A jointure of £10 or £15 (pounds) per annum is but a small provision for a wife, but if such an estate were settled to maintain her title to the joint stock of this society when it is full, she will have at her husband's death £500 which will purchase an annuity of £50 per annum upon land security and free of all reprisals." This was the first of the mutual contribution life offices, and it provided for all the essential conditions of life assurance. The lives were to consist of persons in good health, not over a specified age, and of a social position which would enable them to be identified. What were supposed to be extra hazardous risks were excluded, and if death took place within six months there should be no claim. This last regulation took the place of the medical examination which was introduced at a later date.

The year 1720 is a memorable one in English history and hardly less so in the history of life assur-

ance. Gaming and speculation had pervaded the very atmosphere. In the crude life assurance project of 1699 a new mode of aggregating wealth had been propounded. The notion having taken hold of the public mind, was skilfully but unscrupulously worked by projectors of new schemes. The very unsoundness of these schemes enabled speculators to realize promptly by entering unhealthy lives. In a mutual contribution society the managers have no pecuniary reason for excluding these lives, for the greater the number of members, the larger will be the amount of the entrance fees and the greater will be the profits of the managers, as the subscribers themselves pay the claims. It is only when the new membership decreases and the claims increase, that the unsoundness of the plan becomes apparent. The real merits of life assurance were becoming more understood, and a demand therefore arose for something more substantial and lasting.

The first important attempt on the part of any government to raise money by the sale of annuities was made by John DeWit, Grand Pensionary of Holland, in 1671, when he explained the basis upon which such an enterprise could be successfully carried out. In 1692 the first attempt was made by the English Government to raise money by life annuities, and in 1720 there was an annual charge upon the revenue of eight hundred thousand pounds for irredeemable annuities granted in the reigns of William and Anne.

It was at this time that the South Sea Company, which had been organized for trade with South America, made an offer, which was accepted, to provide seven millions and a half to buy up these annuities. The annuitants were not compelled to exchange their government security for the Company's stock. So thoroughly, however, had the spirit of speculation taken hold of the popular mind, that to hold stock in a company with exclusive trading privileges seemed a far greater thing than to realize seven, eight or even nine per cent. upon annuities. Within six days of the announcement of the Company's terms, two-thirds of the annuitants had exchanged their certain income for

the vast imaginary riches of South America. Before the close of the year the South Sea Bubble burst simultaneously with the Mississippi Bubble in France. Many circumstances point to the fact that money made in insurance projects passed into South Sea stocks, and certainly some of the young assurance offices invested their members' money in these stocks and advertised that they had done so.

To what precise extent the various projects of this eventful period were interlaced it is now impossible fully to unravel. It is certain, however, that with the bursting of the South Sea Bubble all of the life insurance projects existing in England at that time, with a single exception, passed into thin air, and were heard of no more. There had probably been fifty life assurance schemes set on foot between 1699 and 1720, and the loss to the public resulting from their operations can only be conjectured.

A period which may properly be called one of scientific exactitude began with 1721, at which time there was but one life assurance office in existence in Great Britain, the Amicable, founded in 1706. That too was, so far as is known, the only life assurance association in the world. It was very defective in its mode of working, but it stood alone. It had at this date an accumulated fund of about £50,000 and it had distributed in death claims £118,000.

Between 1720 and 1760 many investigations were made into the subject of life contingencies, and many works of much merit were published. These had reference chiefly to annuities and to the mathematical questions involved in their calculation. A careful examination of the history of this period fails to disclose any evidence of a systematic attempt to apply the results of the search for the law of mortality to the establishment of life insurance as a stable and legitimate business. After a careful scrutiny of all the facts obtainable, it was declared that the insurance of a sum payable under a contract designed to extend over the whole duration of life, and either at a graduated or an equalized premium, was, at the time to which we are now referring, a contract very rarely

entered upon either by the commercial or other classes of the community: and we may take it as established that no plan of life assurance as we now understand it had been contemplated by any company or society, or had been considered by any legislature in Europe prior to the year 1760.

It was in this year that the first active steps were taken to establish a plan of life assurance upon the principle of exact scientific computation, the premium being a fixed annual charge, determined by the age of the insured at the time of entering into the contract; and the sum insured being likewise a fixed and determinate sum, subject to no diminution on any ground whatever.

It is estimated that at this time the sum insured on lives in Great Britain amounted to £350,000. These insurances were mostly if not all for one year, and the premiums were not graduated according to ages, but were much larger than the actual risk justified. Some three years prior to this date, a petition was presented to the Secretary of State's office, setting forth the object for which a charter was desired, substantially as follows:

"That great numbers of His Majesty's subjects, whose subsistence principally depends on the salaries, stipends and other incomes payable to them during their natural lives, or on the profits arising from their several trades, occupation, labor and industry, are very desirous of entering into a society for insuring the lives of each other, in order to extend after their decease the benefit of their present incomes to their families, and relations, who may otherwise be reduced to extreme poverty and distress by the premature death of their several husbands, fathers and friends, which humane intention the petitioners humbly apprehend cannot be effectually carried into execution without His Majesty's royal authority to incorporate them for that purpose."

Although the application for a charter was pressed with some vigor in 1760 and 1761, it was not until 1762 that the objections were overcome and the incorporation of "The Society for Equitable Assurance on Lives and Survivorships" was accomplished.

Among the reasons advanced against the granting of the charter was that "the success of this scheme must depend upon the truth of certain calculations taken upon tables of life and death whereby the chance of mortality is attempted to be reduced to a certain standard: this is mere speculation, never yet tried in practice, and consequently subject, like all other experiments, to various chances in the execution."

It was pointed out furthermore that the tables from which the premiums were derived were the bills of mortality of London and the Breslau tables, which, admitting their accuracy, which was very doubtful, included diseased as well as healthy persons and those engaged in hazardous as well as other employments, while it was proposed to insure only healthy persons, excluding those who for any reason were regarded as hazardous risks.

The history of modern life insurance dates from the foundation of this Society, which has, in its own experience, not only demonstrated the benefits of true protection, but also has shown the stability of the business through the varying problems which a hundred and forty years have brought to it for solution.

Its first rates were based on the bills of mortality of the City of London during a period which included the year 1740, when the death rate was almost equal to that of a plague, and were in consequence unnecessarily high.

In 1769 Dr. Price published his work—"Observations on Reversionary Payments; on Schemes for providing Annuities for Widows and for Persons in old age; on the Method of Calculating the Values of Assurances on Lives, etc." The table which he constructed from the records of the town of Northampton, widely known as the Northampton Table, became and continued to be for many years the standard for life insurance calculations. The Equitable Society in 1777 reduced its rates materially, although they still remained so high that large surplus accumulations resulted from the premiums received from policyholders.

That the premiums charged, even after many

years of experience, were excessive was clearly shown by a comparison of the actual mortality of this Society with the theory upon which these premiums were based. In the twelve years preceding 1829 the expected deaths by the Northampton Table were 2248, while the actual claims numbered but 1489. When the records of this Company drew the attention of the public to the profits accruing from the transaction of this business at the rates then current, numerous similar corporations rapidly came into being, most of them for the benefit of stockholders. Although it is probable that many of these were organized with the intention of meeting the obligations of policies as well as for the profit of incorporators, yet few of them long survived, and it was not until near the middle of the nineteenth century that the business assumed a magnitude which commenced to make it a positive force in the affairs of the world.

In the nature of things, the only mortality tables available in the early history of the business, namely, those derived from public records, would in time be abandoned for those made up from the experience among the selected lives of the companies themselves, when that experience should be sufficiently extensive to furnish valuable results. The decision to construct a table from the data to be furnished by the various life offices was reached in 1838. Seventeen companies contributed their experience, comprising 83,905 assurances. The calculations were made under the direction of the most skilled mathematicians of the day, and the result was a table adjusted and graduated in so masterly a manner that it has up to the present time been used more generally than any other. It was published in 1843 and was called "The Actuaries' or Combined Experience Table of Mortality."

Inasmuch as the risk of death is greater at each age than it was at that next previous, the premiums required will increase as the life advances. It has been evident from a very early day that a fixed premium will in most cases be more satisfactory to the insured, and safer for the insurer, than an ascending scale, which creates a burden growing with advancing years.

A level premium will be larger than the contributions to death losses require in the early years of insurance, and this surplus, together with deposits requisite to meet liabilities undertaken in various contracts, must be invested to provide for future necessities. The rate of interest which is likely to be realized for many years is, consequently, a vital question.

As will appear when the forms of contract are discussed, it is not unlikely that some of the life insurance obligations assumed at this time will, in some form, still be outstanding a hundred years hence. The history of the rate of interest is, therefore, an important part of the study of life insurance.

It is not necessary in this connection to attempt to trace the record of the recompense demanded from the earliest period of commercial undertakings by those having money to lend, and the restrictions which the laws have from time to time placed upon these transactions. Supply and demand have caused wide fluctuations in this rate, but the peculiar nature of the investments suitable for life insurance companies is such, that a more accurate analysis of past experience and a more certain estimate of the future is possible than in any other class of invested funds. In other financial institutions where interest plays an important part, the liabilities are of such a nature that the availability of the resources set aside to meet them must be a controlling element. The amount of cash which will be required from time to time to meet the maturing obligations of life insurance companies can be foretold with substantial accuracy, and the rate of interest which will be safely obtainable is consequently higher. The fluctuations in the price of government and similar bonds, and the interest resulting to the investor, should not, therefore, be relied upon by the student of this branch of finance. A very large part of the business heretofore transacted as well as that now in force was based upon the assumption that 4 per cent. would be realized on the invested funds, and the safety of this had been verified by experience. A decline in the earning power of money invested in securities suitable for trust funds of all kinds has been going on for many

years, and has resulted in a reduction in the rate employed in calculating premiums and reserves.

The experience of the English government in connection with the sale of annuities was of such a character as to make it worthy of note as an example of the care which must be exercised in drawing conclusions from statistics when the power of selection rests with the individual. In 1808 England placed this branch of the public finances under the control of the Commissioners for the Reduction of the National Debt, and terms were offered which were so attractive that a very large obligation was incurred. The Northampton Table having been found to be a safe basis for life insurance, was adopted by the Government as a basis for its annuity operations. While a life insurance company can select its members from those who appear to have the elements of longevity, if annuities are offered, the applicants which are accepted cannot be chosen from those who are inferior in physical or hereditary strength. Self-interest will, therefore, play an important part in the transaction, and annuitants have always been and always will be drawn from the long lived class, for as a rule only those who have reason to expect to live to old age will invest at the outset the sums required for the purchase of contracts providing for the periodical payment of amounts ceasing only with death.

The mistake of supposing that the lives of this class would terminate in accordance with the rule applicable to the general population, cost the English government many million dollars before the error could be rectified.

It was in England that the theories of the business were most carefully studied, and put in practice, but the development of the institution has been more rapid in the United States than in any other country.

It has been estimated that apart from annuity contracts, there were not a hundred policies in force in the United States on the risk of life at the beginning of the nineteenth century, and it has been only within the past forty years, that the public recognition of the value of life insurance has been such as to raise

this business to a position in which it not only plays an important part in social problems, but also affects the financial life of the nation.

It is difficult to estimate the total amount of insurance carried by all the corporations and associations engaged in the business of life insurance, but some idea may be gained of its proportions by examining the records of the departments appointed by state governments to supervise its affairs. The first of these departments was established in the eastern states, but the power of the states to prescribe the conditions under which outside corporations shall prosecute the business transacted within their borders has led to careful scrutiny of the affairs of these institutions.

In the year 1860, the life companies reporting to the Insurance Department of the State of New York showed an aggregate annual premium income of \$4,700,000, with 56,000 policies in force, representing outstanding insurance of \$163,000,000. To provide for the ultimate payment of these obligations, these corporations held funds to the amount of some \$24,000,000. In 1870 this Department reported that the life companies authorized to prosecute business in the state had an aggregate premium income of \$90,000,000 with 740,000 policies and \$2,000,000,000 of insurance. Their assets then amounted to about \$270,000,000.

The next decade witnessed a decline in the business, but for 25 years its progress has been continuous, and at the present time the companies classed as regular have more than \$8,000,000,000 of insurance in force, with a premium income of \$380,000,000 per annum and accumulated assets of over \$2,000,000,000. The records of no other country approach these figures.

In many countries companies have been formed to assume life insurance obligations, and there is now no civilized country whose inhabitants are precluded from the benefits of this protection, a knowledge of which, in its general features at all events, is now a necessary part of the education of that citizen who desires to be well equipped for the part he is to take in the affairs of his country.

ECONOMICAL FUNCTIONS OF INSURANCE

WITH RELATION TO THE FAMILY

(Delivered in Yale University Course)

EACH family requires for its subsistence a certain sum of money, which varies both as to the amount and the length of time during which it will be needed, according to the circumstances which surround each individual case. The income is, in some cases, derived from invested funds inherited or accumulated, but, in general, it represents the earnings of that one upon whom rests the responsibility of supporting the various individuals who have the right to look to him for maintenance.

The relations between life insurance and the family spring from this state of affairs, and depend upon the value which one human life has to another. To clearly understand how this may be ascertained, it will be useful to consider the rules which govern the worth of some varieties of property.

In the analysis of the question under consideration, it will be assumed that the security underlying the evidence of indebtedness is abundant and not regarded with doubt.

The simplest form of invested funds is, perhaps, a note or other form of obligation, the payment of which may be, at any time, demanded by the lender or made by the borrower. The value of this is always the amount it represents, for if the current rate of interest rises above the rate which has been agreed upon, the lender will demand his principal in order that he may put his money to more profitable use. If, on the other hand, the ruling rate falls below that stipulated for, the borrower will pay his obligation and secure his money on more favorable terms.

The present value of a bond running for a stated

term of years, and bearing a fixed rate of interest, is a kind of property into which another element is introduced and which will serve to show the controlling force which interest exerts in all valuations. The price of such a bond will depend upon the rate of interest which it bears compared with the current rate which can be obtained by investors, and which, therefore, must be satisfactory to them.

If the rate provided for is greater than the market rate, the value of the bond will be greater than its face value, but will decrease as it approaches maturity, at which time only the face value will be payable. If, on the other hand, the stipulated rate is less than that current, the value will be less than the face, but will increase up to the time when the full obligation will be payable.

If the rate coincides with the market, the value will coincide with the amount of the bond.

If the current rate of interest changes, the value will change accordingly.

In valuing lands, still other elements must be introduced, although the interest question still exerts a force which, on the whole, is controlling.

Adam Smith in his "Wealth of Nations," published in 1776, remarks, "The ordinary market price of land, it is to be observed, depends everywhere upon the ordinary market rate of interest. The person who has a capital from which he wishes to derive a revenue, without taking the trouble to employ it himself, deliberates whether he should buy land with it or lend it out at interest. The superior security of land, together with some other advantages, which almost everywhere attend upon this species of property, will generally dispose him to content himself with a smaller revenue from land than what he might have by lending out his money at interest. These advantages are sufficient to compensate a certain difference of revenue; but they will compensate a certain difference only; and if the rent of land should fall short of the interest of money by a greater difference, nobody would buy land, which would soon reduce its ordinary price. On the contrary, if the advantages

should much more than compensate the difference, everybody would buy land, which again would soon raise its ordinary price. When interest was at 10 per cent., land was commonly sold for ten and twelve years' purchase. As interest sunk to 6, 5 and 4 per cent., the price of land rose to twenty, five and twenty and thirty years' purchase. The market rate of interest is higher in France than in England; and the common price of land is lower. In England it commonly sells at thirty, in France at twenty years' purchase."

In modern times this rule seems to hold good. In thirteen counties in the States of Iowa, Illinois, Missouri, Nebraska and Kansas, there are now on record appraisals of farming lands made in 1876, showing an average of \$20 per acre. At that time money was loaned on these lands at 10 per cent. In 1903 lands in these same counties were appraised at an average of \$39.60 per acre, while loans were made at about 5 per cent.

In the varieties of property thus far considered, there will be found to be lacking certain elements which produce chances of change and deterioration, which must be combined with interest in valuing other classes of property. A lot in the center of the city has no value of its own, and can only be made income-producing by the erection upon it of a building for the use of which a rental will be paid. There are many circumstances which must now be considered in determining the worth of this property. If it is composed of or surrounded by inflammable materials, its value will be unfavorably affected. It is true that the owner can protect himself against loss by fire by a policy of insurance, but he must pay for this protection his full share of the risk, which will be accurately estimated, and the value which the building would have, were it not for this hazard, will be diminished by just the chance of that contingency. The present condition of the structure, viewed in the light of natural decay and its adaptability to the needs of the location and times, will demand intelligent discrimination. The amount, therefore, which an investor will pay for the block will be determined by his knowl-

edge of what it now produces, and his estimate both of what it will yield in the future and the time when, either by gradual deterioration or by sudden accident, it will become unable to afford an income. If there can be obtained from it more than will suffice to meet necessary expenditures, then the property has an actual value which will vary according to the estimate that may be made of its future, always controlled by the current rate of interest which can be obtained on investments.

That neighborhood which today attracts business by the elegance of its buildings, or its nearness to lines of travel or transportation, may tomorrow be swept by fire or damaged by changes in modes of conveyance. No human foresight can provide with certainty for these contingencies, but the general future of a section is estimated by the careful student of the laws underlying commercial transactions, with an accuracy which, on the whole, enables him to reap the profits that legitimately belong to high intelligence. In the change of ownership, the purchaser thinks that he is receiving more than an equivalent for his money; else he would not buy. The seller differs as to the probable future, and believes that what he now receives will be of greater value; otherwise he would retain his possession. The result in almost any particular transaction will show that one or the other has erred in his estimate, but on the whole, real estate or any other property which is valued for its income will be found to conform to the general law which governs the value of money.

Repairs and alterations may be made which will check decay or even increase productiveness, but each change will call for a new expenditure which will not prevent the decline in the value of the original investment.

Having considered the elements which enter into the value of certain kinds of property, it can now be enquired whether a human life can have a definite worth which can be measured with any degree of accuracy. It would not be difficult to enumerate many lives which cannot be considered of any pecuniary

value, because, for various reasons, they produce nothing. Such are those of the very old, the imbeciles and the confirmed invalids. But the life of every man who earns more than suffices for his actual personal expenses is of pecuniary value to someone besides himself. This has been recognized from early times in the institution of slavery, which was based on the principle that the ownership of the services of a human being had a value in accordance with the excess of earnings obtainable above the necessary cost of subsistence. When a slave was purchased as an investment, he was examined in order that the state of his health and his muscular development might be known. These qualities in connection with his age, his skill in any variety of labor, and his disposition, determined the price at which he seemed likely to be a profitable investment. A carpenter or blacksmith was worth 50 per cent. more, other things being equal, than an ordinary field hand, because, while the cost of his support was no greater, the quality of his service was much more valuable. In any case, however, certain important elements were either wholly lacking or but partially developed. "A person who can acquire no property can have no other interest but to eat as much and to labor as little as possible."

Family ties are needed to develop the highest value of a human life. But while this value thus reaches its greatest capacity, there devolves upon its possessor the responsibility of supporting those who have by his own choice and act the right to depend upon him for the necessities of life. The family, then, has a clear and indisputable interest in his earnings. This they have day by day, month by month, and year by year. If he dies possessed of property, this by right goes to them, in order that they may, so far as its income may enable them, continue to defray the cost of existence.

But what of the life itself? Has it a value beyond what it produces in a month or a year which can be measured with any degree of accuracy? Supposing its possessor to be of good constitution and free from hereditary taint, it has already been shown that he and

others of his class will be governed, as to the length of their lives, by a law of mortality so certain that their average lifetime may be measured with as much precision as that which governs any series of future events. For example: A man is thirty years old, in good health, and his surplus earnings are \$1,500 a year, and money is worth 4 per cent. per annum: by a standard mortality table, the present value of the future surplus earnings of this life is \$25,560. It is true that this value is based on averages, and that the assumption that he will, through his life, receive and spend just the amounts here set down will not probably be realized. It is well-nigh certain that his death will occur either before or after the date expected. Disease or accident may rob him permanently of his productive power. Circumstances which no skill guided by research can calculate, and no judgment foretell, may change the current of his life, and enhance or diminish the value of his efforts. And yet this value rests upon a foundation composed of elements no more uncertain than those which determine the worth of the business block. Both the building and the life are constantly exposed to the danger of destruction, but the chance can be measured even more accurately in the latter case than in the former.

The natural ability of one man is greater than that of another, and this advantage will be shown in the value of their respective services. These qualities as well as those of industry and perseverance are inborn traits, and will, considered in connection with education and training, determine the amount for which their possessor can lease his efforts to others or employ them for independent profit. What nature has done for the man may be said to correspond with the location of the building. What experience has taught him is like the quality of the structure. In each case there are certain necessary expenditures which must be met before any real value can exist, and in each case the worth rests upon estimates.

The family which depends upon this income has an interest in the life which produces it, which is not limited by a month or a year. It extends into the

future as far as they need it. Without it they will suffer privation or be dependent upon charity, in either of which conditions their natural protector has no right to leave them. It is here that the institution of life insurance performs the service for which it was created. It renders immediately available the future earnings of a lifetime. It takes the place of him whose duty it is to care for his dependents until they can care for themselves.

The Federal Bureau of Labor has completed an extended investigation into the cost of living of workmen's families, and the retail prices of the principal staple articles of food used by such families. The material for the detailed study of the cost of living consisted of the figures of income and expenditures furnished by some 2,500 families in thirty-three states, although certain data not entering so much into detail were gathered from 25,000 families. The 2,500 families furnishing the detailed material consisted on an average of 5.31 persons, a figure slightly (0.7), above the average of private families in the whole country as shown by the census of 1900. The average yearly expenditures for all purposes was \$768.54 for the year 1901. Of this, 43 per cent. was for food, 13 per cent. for rent, 14 per cent. for clothing and 5 per cent. for fuel and lighting. Three-quarters of the expenditures was for the actual necessities of ordinary living, the remainder representing miscellaneous expenses, including the cost of education and sickness. If this average family is supported by one person, his death would diminish the total family expenditures by some amount. It is not unreasonable to assume that the cost of maintaining the remainder would be \$500.00 per annum. Assuming that he is forty years of age, and in good health, and that money is worth 4 per cent. per annum, the present value which this family has in his life is \$7,546.50. Human and divine laws give them the right to the fruit of his labors. But does he perform his whole duty when he furnishes them with food, clothing and the other necessities of life, or even with education suitable to their station? He may live to see his children self-supporting, and

to provide for the old age of himself and his wife, but what if his life shall be cut off while they are still unable to earn their own subsistence?

Hadley says: "Although society insists as far as it can that each man shall be responsible for himself and his family, it cannot carry this principle out to its logical conclusion. We cannot kill off the weak merely because they have been unable to support themselves. Still less can we leave the unfortunate to die as a result of their incapacity. The ethical loss to the community which adopted such a course would indefinitely outweigh any material or physical gain. The independent and the unfortunate must under certain conditions be taken care of by society, even though the process of natural selection is thereby hampered."

Again, in discussing compulsory insurance and pensions, he says: "There are certain things which society must do in justice to itself, which it cannot safely allow individuals to demand in justice to themselves. If you give every man a right to a pension when he is incapable of self-support, you tacitly approve his failure to provide for himself and his children. That the necessary degree of production and of economy by the community as a whole would be maintained, if such a point of view were adopted, seems highly improbable. We need measures which shall increase individual responsibility rather than diminish it; measures which shall give us more self-reliance and less reliance on society as a whole. We cannot afford to countenance a system of morals or law which justifies the individual in looking to the community rather than to himself for support in age or infirmity."

It will not be denied that certain persons must and should be supported at the public expense, but the fewer there are of these, the better will be the morals as well as the finances of the community, and life insurance is continually reducing this dependent class. It is not the man who lives to old age, supports and educates his children and saves a competency, who contributes to the class who are applicants for public charity. But the one who is taken away while his children are infants and who has not had the time

given him, no matter how affectionate and thrifty he may be, to provide for their needs, is a liberal contributor to the orphan asylum and the almshouse. He may avoid this danger by postponing marriage for such time as will enable him to accumulate a sufficient sum to insure the comfort of a family, but neither morality nor the public welfare will be best served by the establishment of such a principle. There is but one way by which he can follow the course which nature intended him to take, and that way is open to him through life insurance. By the payment of comparatively small sums at convenient intervals, he can relieve himself of the responsibility of the distress which would fall upon his dependents in case of his premature death, and he can, moreover, provide for his own future in case he should survive the time when, from physical weakness, he shall become incapacitated from earning his own subsistence.

In what directions and to what extent life insurance promotes the best family life it is difficult to prove. That it tends to increase the sense of responsibility which leads to a thoughtful appreciation of affection and duty cannot be doubted. That man who enters upon his married life without consideration not alone of the probabilities, but also of the possibilities, will find himself weighted with a burden which he cannot transfer to another, and which will consist both of the necessity of self-denial and anxiety for the future. The first will develop and improve his character; will stimulate his ambition and increase his efficiency, but a combination of the two will dishearten and impede him and tend to cruelty, intemperance and divorce, for he will seek to transfer to others that for which he alone is responsible.

Life insurance makes immediately available the future savings of a lifetime, and it is this element of its operations which is its most common and prominent characteristic. But its mission cannot be fully gauged without an understanding that it has another feature less used but not less useful. It has been shown that in a large number of human beings belonging to a known class, a law of mortality has been found to

exist, and this has been used through life insurance to distribute among the many the unexpected disasters which must overtake the few, and which would otherwise bring distress, pauperism and crime.

It is equally true that out of the many some will survive to old age, when they will have reared and educated their children and performed their whole duty toward them. If a man thus situated has been fortunate enough to accumulate property, the income of which is sufficient to maintain him independently of other aid, his natural desire and duty are to pass on his possessions to his descendants, who will thus eventually secure his surplus earnings. But in many cases he will in his old age find himself alone, his duty done, his children self-supporting and in the same condition in which he himself was in his youth, while the interest on his savings will not suffice to give him that comfort and independence to which he is fairly entitled.

Suppose such a man to be seventy-five years of age, and that he has saved \$5,000. If this is invested at 4 per cent. it will yield him an income of \$200 a year. This will not provide for his needs, and he must depend upon others for a part of his support if he has lost his earning power, or he must, each year, spend a part of his principal, with a possibility of living long enough to exhaust it and finally to become wholly dependent. By the operation of the laws of mortality, life insurance can take this amount and give him an income of \$800 a year so long as he may live.

This service also is a distinct and important element in the family life. While the responsibility which rests upon the man with a young and immature family is definite and unmistakable, and may extend to the end of an old age, involving the preservation and transmission of any property he may have, yet in some cases independence and happiness can only be secured by obtaining by means of life insurance the larger and sure income which involves the investment of the principal for the sole benefit of its owner.

The aged parent or relative who is no longer able to earn a living, and who has become a charge upon a family needing all its resources for its own members,



is often an unwelcome guest, while this same one with an income sufficient for his maintenance will be an object of care and solicitude.

In these ways does life insurance serve the family in guarding against the losses of early death and in providing means to ameliorate the disadvantages of old age. But distributing the burden of the few among the many is not the only service which this institution performs for the family. The contracts which it offers to the public contain not only the element of protection, but of accumulation as well. The savings bank has its uses and has played an important part in the development of family thrift, but the payment which is called for at stated times will be more likely to be met than the deposit which is required only by an indefinite resolution. That the habit of saving, especially if it be for others, is uplifting and tends to strengthen family ties does not need demonstration.

Carroll D. Wright says that the family "must be considered as the crucial social unit—the very keystone of society"—for it results from happy association of the sexes by which the human species is perpetuated and extended, by which the affections are developed, and by which the interest which compels one unit to protect, preserve and cherish another, is fostered. It should be the purpose of society, as a whole, to protect the sacredness and integrity of that relation. Without the family unit no other social units would be possible; it brings the individual out of his seclusion into ethical relations, constitutes him a living evolutionary force, lifts him out of intensive selfishness to a more extensive selfishness, for in the family relation he must live for others, although in living for others he may live for his own higher enjoyment. The purpose of the individual unit in entering social relations and in inviting the force of association is to secure happiness. He may be well fed, warmed and clothed, while in the disintegrated state of the individual, but in such state he can have no realization of the happiness which comes from appreciation of and service to others. Hence the family grows out of the psychic tendencies of men, and is perhaps the best

demonstration of the highest aspirations of the individual. It is found in every condition of population, whether living in savagery, in barbarous or in civilized communities. It is the fundamental unit of civilized society."

If the family as thus described be thoughtfully considered, it will be apparent that life insurance is not only an important factor of this social unit, but that it is an absolutely essential part of an ideal condition of civilized life.

ECONOMICAL FUNCTIONS OF INSURANCE

WITH RELATION TO THE STATE

(Delivered in Yale University Course)

WOOLSEY defines a state as, "A community of persons living within certain limits of territory under a permanent organization which aims to secure the prevalence of justice by self-imposed law."

It is clear that any agency which improves the mental or moral attributes, or the material circumstances of any one of its citizens, raises the condition of the community of which he is a member, and thus benefits the state. Savings banks encourage thrift and produce accumulations which would in many cases be otherwise wasted, and thus they constitute a distinct and tangible benefit to the state. Life insurance promotes a sense of responsibility, strengthens family ties, and thus elevates the general character of the nation. It lessens those family discords which end in divorce, it checks intemperance, and often by its requirements brings a realizing sense of the benefits of right living. The very restrictions which the companies transacting this business themselves place upon admission to membership bring a clear comprehension of the result which temperate living has upon the length of life. Careful observation has shown that the intemperate use of liquor weakens the human system, rendering it less liable to withstand disease, and thus shortens life. This is one of the risks which life insurance companies strive in every way to avoid. Not only are searching questions asked of the applicant as to his habits in this respect, but reports are often secured from independent sources as to his custom in the use of liquor. It is undoubtedly the case that many who have thoughtlessly fallen into habits of intemperate drinking, without realizing its ill effects, have,

when brought face to face with the requirements of life insurance, changed their modes of life, and have become not only sounder physically, but improved in financial condition, and have thus become more valuable citizens, and therefore increased the prosperity of the state.

The physical examinations which are required in all cases of life insurance also have their very marked effect upon the public, for until the true meaning of life insurance is brought home to an applicant, he seldom comes to an understanding of what the actual value of his life is, and how much this value is increased if the length of his life can be prolonged. Weaknesses and ailments not before known are often discovered, and remedies are applied which lengthen life, and thus add to the aggregate value of the state.

There can be no doubt, furthermore, that life insurance curtails the expense to the public treasury of almshouses and police, of criminal courts and prisons, and of the various other necessary branches of the public service which have to do with the prevention and punishment of crime, and the relief of the suffering and unfortunate.

Some years ago, a census was taken of the paupers in the Philadelphia almshouse, with the result that of the number observed—1,110—only three were found who had been beneficiaries of life insurance, and these to the extent of \$6,000, but through profligacy or improvidence they were reduced to a state of pauperism. In a census of the Montgomery County (Pa.) almshouse, 133 were examined and it was found that none of these people or their families ever had been the beneficiaries of life insurance.

In the year 1902 there was distributed to the holders of life insurance policies and their families in death claims, matured endowments, and annuities, by the life insurance companies of the United States, more than \$140,000,000.

It is certain that in many cases the proceeds of a life insurance policy are practically all that remain at the death of the one responsible for the support of helpless dependents, and in a vast number of these

cases, were it not for this aid, many persons would be forced to accept public charity. There can be no doubt that an investigation of the records of the inmates of prisons, and of asylums, maintained at the public expense, for the care of those made helpless by disease and old age and unable to care for themselves, would show that with rare exceptions they do not belong to that class from which the membership of life insurance companies has been drawn.

The limits of this discourse do not permit an exhaustive analysis of the influence of life insurance upon the community, nor the benefits which it confers upon the living on the one hand and upon dependents on the other. Some other phases of the subject are of such importance as to make the study of them interesting and useful to all who are engaged in business, professional or political life.

The state long ago recognized the part played in its affairs by this institution, and the peculiar nature of its service, by enacting laws to protect the family in the proceeds of life insurance policies as against the claims of creditors. As early as 1840, the state of New York passed an act in substance like the present law in that and other states. It clearly indicated that the government was justified in the position that the duty of a man not only to support his family during his lifetime, but also to provide for them after his death, should take precedence of all other obligations. This law as it now stands in the statute book of Connecticut is as follows: "Any policy of life insurance expressed to be for the benefit of a married woman, or assigned to her, or in trust for her, shall inure to her separate use; or in case of her decease before payment, to the use of her children, or of her husband's children, as may be provided in such policy. But if the annual premium on such policy shall exceed \$300, the amount of such excess, with interest, shall inure to the benefit of the creditors of the person paying the premium."

The charters of some of these companies contain similar provisions. In order to make sure that the protection provided for by the insured shall in any

event, notwithstanding his own pecuniary condition, reach those persons who properly look to him for support, and without whose protection might become charges upon the public, the law has been invoked both in the statute books and the articles of incorporation.

The business of life insurance is transacted exclusively by corporations deriving their powers from charters granted, in this country, by the governments of the various states. An ordinary contract of insurance is a promise to pay a given sum at some indefinite future time, in consideration of the present payment of a certain other sum. The peculiar character of this agreement makes possible the practice of deceptive and unsound methods, to an extent impracticable in those transactions where the purchaser can more readily examine and understand the real nature of the thing for which he pays. It was natural, therefore, that laws should be passed, intending to guard the public against the dishonesty and ignorance of the managers of these institutions, by requiring reports of their affairs to be filed with public officials. The state of Massachusetts in 1807 adopted a resolution, requiring insurance companies to render an account of their affairs to the next legislature. In 1828 an act was passed requiring these corporations to make annual statements to the comptroller, and in 1851 this official was given authority to make examinations of companies.

Massachusetts enacted a law in 1854, providing for the creation of an insurance department, which was organized in the following year by the appointment of three commissioners, whose duty it was to examine the reports and the conditions of all companies doing business in the commonwealth. Other states have followed the example set in the East, as the operations of these corporations have become extended and enlarged, until now there are fifty-two insurance departments, including Alaska, Porto Rico and Hawaii.

The questions asked by the officials in charge of these departments were at the outset comparatively few in number, and were intended to show only in a

general way the operations of these companies. The insurance commissioners many years ago formed an association for the discussion of the various questions which were constantly coming before them, and they now hold annual conventions at which new thoughts have been from time to time brought forward, and a uniform blank has been agreed upon, which at this time is in use by nearly all of the departments.

It is required that each company shall state in general the title of the corporation, the date when it began business, its location, and the names of its officials. The details of its business are then gone into with very great minuteness. It must give the amount of new or first year's premiums received during the year, the amount of renewal premiums, or those which are paid after the first year to continue policies in force, together with the sums received for annuities. The interest on the various investments is required to be stated in detail, together with any profits which may have been secured from the sale of assets.

The disbursements are also called for, showing the amounts paid for claims by death, for matured endowments, for annuities, surrender values and dividends to policyholders. These make up the total amount distributed to members and their beneficiaries. It is also required to state the amount of dividends paid to stockholders, in case of companies having capital stock, the commissions to agents, separating those paid for first premiums and those for the collection of renewals, salaries and allowances to agents, agency supervision, traveling and all other agency expenses, the fees of medical examiners and for the inspection of risks, salaries and all other compensation of officers and home office employees, rents, advertising, printing, postage, legal expenses, the amounts paid out in taxes, licenses and department fees, taxes on real estate, repairs and expenses of real estate.

A detailed account of the assets of each company is also required, showing the book value of real estate, and a statement of where it is located, mortgage loans on real estate, loans on the company's policies, book value of its stocks and bonds, the amount of cash in

the office and in banks, interest due and accrued on mortgage loans, and on stocks and bonds, and on premium notes or policy loans. The market value of stocks and bonds compared with the book value must also be stated, the outstanding uncollected premiums, both new and renewal, and deferred premiums, i. e., the unpaid portion of the yearly premiums which were not due at the close of the year. The liabilities must also include the net value of outstanding policies and annuities, the unpaid losses which have occurred prior to the close of the year, specifying which are due and which are adjusted and not due, together with any claims which may be resisted, dividends to policyholders unpaid, and those which have been apportioned.

Following these statements of operations, a detailed policy showing is required: the number of these obligations outstanding at the end of the previous year, and amount represented by them, separated into their various classes of life, endowment and term insurances, the issues of the year, including revivals and increases, and the terminations with the causes by death, maturity, expiry, surrender, lapse, decrease and not taken. This statement indicates the outstanding obligations at the time of the report, and the number and amount of policies reinsured in other companies. The amount of business transacted and outstanding in the particular state inquiring is also required, showing premium receipts and claims paid.

In addition to these particulars, a list is called for of real estate owned, showing the location and values; any securities held as collateral security, together with their values and the amount loaned. The bonds and stocks owned are required to be specified in detail, with descriptions which will enable any one to know exactly what these securities are.

The intention of these requirements is to show, first, the present financial condition of these corporations, by exhibiting so far as possible the nature of their various investments, in order that the public may know the general plan of each company as to its investments.

The liabilities, as has already been shown, are

based upon averages and estimates as to the length of life and future rates of interest, and while a mere statement of the amount of these calculations cannot always convey an accurate idea of the real condition of any company, it is safe to say that in practically all cases, liabilities are calculated upon sound principles; that is, upon a table of mortality less favorable than the average experience, rates of interest somewhat below the actual receipts, and the assumption of future premiums considerably less in amount than the actual contracts call for, so that any company which has a sufficient amount of good assets to cover its definite as well as its computed liabilities is in reality financially sound, and able to meet its claims as they mature.

The details of income and disbursements which are required, and which through these departments are given to the public, are for the purpose of enabling each one to judge for himself as to the wisdom and economy of the management of the various companies. While mere inspection of these figures will not always enable one to arrive at a true comparison between different companies, they do serve to show important particulars which throw much light upon the conduct of these institutions.

In considering this phase of state supervision, while the items which are required to be given by all companies may seem unnecessarily numerous, yet it should be borne in mind in fairness, that it is not alone the old and strong companies whose affairs are thus scrutinized, but those other institutions which may still be in the experimental stage. It may be something of an indication as to the searching qualities of these requirements to state that there are in the regular blank three questions relating to ledger assets and capital stocks outstanding at the beginning of any given year; the questions as to income number 29, disbursements 31, assets 36, liabilities 25, first exhibit of policies 24, second exhibit 23, miscellaneous 18, premium notes 10, in all 199, not including the details of securities.

For filing these statements, each company is required to pay various fees, in many cases not only

sufficient to pay all the expenses of the department, but to leave a surplus to be turned over to the treasury of the state. This kind of supervision is valuable in many ways, for it seeks to place before the public the condition of each company, and generally enables any one interested to form some idea as to the responsibility and management of these corporations. In a recent address delivered by the Commissioner of Insurance of the state of Wisconsin occurs the following: "Each state, therefore, has extended its police powers for the purpose of protecting its citizens. Its laws are intended not only to protect the policyholders, but to keep irresponsible and fraudulent companies from competing with honest, well-managed, sound companies, and to give to the latter official endorsement by the state. In so far, no one can object to the purposes of state supervision; but with such benefit conferred on the people, insurance departments have become revenue collecting agencies to the annoyance and hardship of companies. Supervision means not only collecting taxes and fees, receiving reports, compiling and printing statistics, valuing policies and examining companies, but includes the judicial as well as the executive enforcement of the statutes under which insurance corporations are formed, and in which their powers and duties are defined and their limitations presented. This requires an understanding of the principles of insurance, the functions of companies, and the relation of present conditions and future necessities. The cost to the companies should be the cost of supervision. The cost of examination should be imposed upon a company only when seeking admission to the state. When once admitted, any examination made is for the protection of the people, and should be borne by the state. Taxes, when imposed, should be for the purpose of enforcing mutuality, and not for revenue. For example: We impose a tax upon life insurance premiums, yet the business of life insurance can only be transacted by the members combining contributing to a common fund to insure themselves, and by imposing a tax upon the premium, each policyholder in a mutual company is paying the state a spe-

cial tax for the privilege of relieving the state from caring for his dependents, and is again taxed for the purpose of caring for the dependents of those who carried no insurance."

It is likely that by reason of the statements made public through these reports, of vast sums collected from the people, a system of taxation has grown up, which has become a serious burden upon members of these corporations, whose sole object it is to provide for future necessities. There was collected in the year 1902 from life insurance companies for taxes more than \$8,300,000, by far the greater part of which was the tax upon premium receipts. It will not be claimed that these institutions should altogether escape some share of the cost of maintaining the governments, yet it is a question of very great public interest as to what burden of this kind should be imposed upon this particular class of institutions. If they are performing the public service which is claimed, the levying of these taxes tends to check the spread of insurance, by making it more costly than it otherwise would be. For several years the question of national supervision has been widely agitated, and while it is not at all probable that the various states will relinquish all supervision, it is certainly a fair question whether the public good will not be served, if some general supervision can be substituted for a considerable part of the present system, to the great saving of expense, without impairing the value of the present governmental inspection.

An examination of the items of investment is interesting and useful as indicating the influence which these accumulations undoubtedly have upon the growth and development of the country. The loans which these companies now hold upon real estate securities amount to not less than \$600,000,000. These investments have enabled the owners of real estate in cities to improve their properties by building dwellings and business blocks, and to increase and extend every line of business. For more than thirty years some of the life insurance companies have made loans upon western farming lands. These have enabled the farmers

of the country to buy land and to cultivate it, to erect necessary buildings, to buy stock, and to continue their operations through unfavorable years. It is certain that these institutions have been largely instrumental in the growth of the farming interest. Lands in sections where these corporations have loaned money have very greatly increased in value, largely by reason of the reduction in rate of interest which has come through the increase of these funds seeking investment. Vast sums of money gathered from the payments of policyholders, and held and improved at interest, solely for the final payment of claims, have been used in the development of railroads and other corporations, and to improve cities and towns. Deposits in banks have served to aid commerce and have been largely instrumental in enabling those engaged in various lines of business to procure funds on reasonable terms.

Life insurance exists for the purpose of repairing the loss occasioned by the death of an individual who can produce more than the cost of subsistence. This has been shown in individual cases, and it has also been demonstrated how such value can be reached in any particular instance. In considering the relations which life insurance bears to the state, it is necessary to take such aggregates as can be ascertained, and to point to certain conclusions. The conditions which prevail in Connecticut may be used as a fair example. It is shown by the census of 1900 that there were 385,610 persons in Connecticut engaged in all occupations; of this number, 186,675, or somewhat less than one-half, were engaged in manufacturing, and the amount paid by these establishments in wages and salaries during the year 1900 was \$95,053,775. Of this amount it is probably within the fact to assume that two-thirds, or say \$60,000,000, was expended in the support of others than those earning this income. If it is assumed that the average age of these producers is thirty years, and that the present value of an annuity at that age is \$17.00, and that on the whole the mortality among these persons will follow the table rate, it appears that this income represents a present value

of future earnings of more than a thousand million dollars, any portion of which capital is liable to be cut off in any hour of any day. But these figures apply only to those engaged in one branch of labor, and this probably on the whole less remunerative than the sum total of other occupations. It is not claimed that these estimates even approach accuracy, but it seems reasonable to believe that they are within facts.

The grand list of Connecticut in the year 1900 amounted to \$694,000,000. This represents the amount of property subject to direct taxation in the State, by far the greater part of it consisting of real estate and buildings. Theoretically these properties are placed in this list at somewhat less than their actual value, but it is doubtful if taking the whole state together, the value of real estate and buildings is materially greater than that placed upon them in the grand list.

From the estimates which have here been made, there can be no doubt whatever that the present value of the future earnings of those engaged in various occupations in this state is many times the amount of the grand list.

The material wealth of a state not only depends upon its citizens, but by far the greater part of the real resources of the commonwealth is composed of the actual computable value of the lives of its inhabitants.

The report of the Insurance Commissioner of Connecticut for the year 1900 shows that there were at the close of that year, life insurance policies outstanding on lives of citizens of the state representing \$149,970,752 of insurance. Some of these have been in force for many years, and it is certain that the average age of these policyholders is much higher than that of the general population. Assuming it to be fifty, it appears that this amount of insurance represents an income which it is intended to protect of about \$12,000,000. It is evident that this protection is far less than the amount at risk, and that the community is therefore constantly sustaining losses by death, which are repaired only to a comparatively small degree. The life insurance agent is supposed to prosecute his business thoroughly, but he will not

accomplish his full mission until the education of the public has proceeded to a point where the real purpose and the actual benefits of life insurance are far better understood than they are at this time.

The propriety of taxing the income or accumulations of life insurance companies has led to many discussions of the relations of these institutions to the state, and to an expression of opinion by many eminent men who have, by reason of such propositions, given much study to this question.

In a debate on an Income Duty Bill in the House of Commons in 1798, Pitt said: "Laying aside the proud idea of the vigor, permanence and renewing energy which the measure secured, there is one case which, with a view to the class who are really willing to save for the benefit of those for whom they are bound to provide, makes some modification. It is in favor of those who have recourse to that easy, certain and advantageous mode of providing for their families by insuring their lives."

In 1862, when this country was seeking means for meeting the extraordinary expenditures occasioned by the war, and the question of taxing insurance companies was before Congress, Charles Sumner said: "The business of insurance, it seems to me, is peculiar. It differs from other business. It is not strictly, if I may say so, a money-making business, but it is a money-saving business. I know that persons get up insurance companies in order to advance their own interests: but the primary object of the insurance office is to protect other people, and particularly the poor: it is to help the poor. I say, therefore, it is not primarily, as compared with many other businesses, a money-making business. On this account, it seems to me, it has a title to a certain consideration. Now, what is proposed? A tax on the premium. What are the premiums? The premiums are themselves a tax. The premiums constitute the tax which the person insured pays for his insurance: and now it is proposed to put a tax on a tax. This is the precise case. I state it in this way in order to simplify it; in order to reduce it, if I may say so, to its most naked form."

Francis A. Walker has said: "If a man's income belongs to him to spend, it belongs to him to save: and on the ground of equity, the state cannot lay its hands upon that which represents the double virtue of industry and frugality, while sparing that which represents the single virtue of industry. Economically considered, there cannot be a moment's question that the policy of laying the burden of the state upon that portion of the product of industry which has escaped the maw of appetite, which is presumably reserved for useful employment, which is in a sense consecrated by worthy social ambition and which represents the courage, prudence and faith requisite to subordinate the present to the future, is thoroughly vicious."

Two-thirds of the adult men and women of this country are married. Some of the remainder are physically or mentally unfit for the marriage state, but it cannot be doubted that whatever agency increases marriages, among those who only postpone this act because of a natural and prudent apprehension of the results which death may bring, promotes the well-being and increases the happiness of the community. There is no way, except through life insurance, that many suitable and advantageous marriages can be entered into with a due regard for the happiness of the individuals directly interested, and for the protection and welfare of the state.

The public treasury must be supplied by those who are benefited by the expenditure of public money. Churches and schools lessen crime and pauperism, and thus diminish public expense. Their influence is rightly considered in distributing the burdens of taxation. In considering this question, which is of great and increasing importance, a knowledge not only of the theory of life insurance, but also of what it is accomplishing and of its possibilities, will be of advantage to everyone who seeks to do his share for the uplifting of the state of which he is a part.

LEGISLATION IN LIFE INSURANCE

(Delivered in Yale University Course)

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TO form an intelligent opinion of the wisdom of present and the need of additional laws in this country it is necessary to consider the theory of the federal government and its relation to the separate states, and to reflect upon the characteristics of human nature, in order to determine what legal restraints will best protect those who need and are entitled to the shelter of the law, without at the same time fostering a sentiment of dependence upon governmental care destructive of true liberty and independence.

In a sermon preached in Hartford in 1638, it was announced that "the foundation of authority is laid, firstly, in the free consent of the people." Upon this and other doctrines of liberty laid down in this discourse rests the Constitution which was framed in the following year, and which was the first written document creating a government in the world's history.

The Declaration of Independence in 1776 proclaimed "that all men are created equal, that they are endowed by their Creator with certain inalienable rights, that among these are life, liberty and the pursuit of happiness. That to secure these rights governments are instituted among men deriving their just powers from the consent of the governed."

CONSTITUTIONAL GUARANTIES

The Constitution of the United States adopted in 1789 guarantees to all citizens equal rights and liberty, which may be defined as "freedom from all restraints except such as the lawful rights of others prescribe." It is the clear intent of the

whole theory of the government of the United States, that the individual citizen shall be permitted to pursue such lawful occupations as he may choose to engage in, and that no restrictions shall be placed upon his acts, except those which may be necessary for the protection of society and which are defined by legislators of his own selection. He certainly may, if he pleases, devote his energies to any number of different lines of business, and he may invest his accumulations in whatever way may suit his needs or his fancy. He can employ a large capital or none at all, can borrow at will, can acquire property of any kind, to any amount. His accounts do not concern any one but his creditors. He requires no legislative permission to manufacture or buy as cheaply as he can and to sell at any prices which he may induce others to pay. The laws of supply and demand, and the results of competition are relied upon to regulate values. The buyer must rely upon his own observation and care to protect him against extortion. He reaps the reward of study and investigation, or he suffers the penalty of ignorance and carelessness, and is thus taught by experience the value of those qualities which make a successful and valuable citizen.

INSURANCE CORPORATIONS

The business of insurance is transacted by corporations created by and deriving their powers from the states. A corporation is an artificial person created by law, or under authority of law, from a group or succession of natural persons and having a continuous existence, irrespective of that of its members, and powers and liabilities different from those of its members.

Insurance is based on averages, and steady and reliable results can only be obtained when the number of risks is larger than could be safely assumed by an individual with the capital which he could command, or which he would be willing to hazard in such an undertaking. But more especially must this business be done by corporations, because those

interested in policies of insurance cannot safely depend upon the continuance of the life of a human being for the final payment of an obligation which may not mature for many years.

The charters of these institutions may be special or general acts of a legislature, but in either case the articles of incorporation set forth in detail the exact nature of the transactions which may be legally undertaken.

The legislature of a state is composed of individuals elected for the purpose of enacting laws which could not be intelligently framed by the whole people, but which are intended to be for their protection or benefit.

GRANTING OF CHARTERS

A special charter is a law permitting certain persons to engage in some enterprise which, though it may bring advantage to its promoters, will also be of service to the general public. In granting such a charter, the state does not guarantee the success of the undertaking by pledging the public credit, but it does set the stamp of its approval on the character of the business to be transacted, and in return for this puts such limitations and requires such publicity as will best guard against those evils which may come from great combinations of capital and corporate greed. A legislature which is elected for the sole purpose of acting for the whole people has no right to grant a franchise which, by permitting public property to be taken or sued without an adequate return, or by giving any advantage over individual effort, enables its possessors to make unusual profits or enjoy any gains except those which legitimately belong to industry, skill and fair dealing.

It must be assumed that it is advantageous to the whole people that they should be able to secure the protection afforded by insurance companies; that is, that the loss of the individual shall be distributed by the contributions of many.

While charters specify what varieties of business may be undertaken, and often designate in

what manner it may be done, yet there are seldom definite limitations as to forms of policies, amount of premiums, rate of expense, investments, or any of these details which make up the transactions of these corporations. These have been regulated from time to time by general laws.

THE STATE'S RIGHT

A state has the right not only to dictate the methods of its own companies, but it also has the power to specify in what way a foreign corporation seeking to do business with its citizens shall conduct its affairs, so long as these conditions do not conflict with the privileges granted by the federal Constitution. In fact, it is well settled that a state may lawfully demand that a foreign corporation shall agree to waive certain constitutional rights which it would naturally have, before granting it a license to be represented within its borders. United States courts exist for the purpose of securing justice in cases where local prejudice or influence might prevent unbiased decisions. Many states require as a condition precedent to admission, that an insurance company shall agree that it will submit to the jurisdiction of local courts.

How far the public good is served by general laws restricting and regulating the conduct of these corporations is a complicated and serious question.

Violations of the laws of health, excesses in eating and drinking, bring their sure results in causing disease and shortening human life. In this way they diminish the aggregate of the country's wealth, for the value of the lives of a community is far greater than that of all its other possessions. Certain articles of food and drink are well known to be unwholesome, but to prevent by law the use of these is not only an unwarrantable interference with personal liberty, but, what is perhaps even more important, such legislation would tend to impair the value of that strength of character which can only come from self-reliance. It is proper that people should be protected against many of

those perils which they cannot measure themselves, but it is demoralizing to teach them that the laws will relieve them of those risks which it should be a part of their education to measure and meet.

A state which charters and to a certain extent endorses a corporation may well regulate its operations in such ways as will protect the public against those dangers which they cannot measure, leaving reasonable freedom of action in accordance with the spirit of a free country.

An insurance company is a peculiar institution in that its liabilities cannot be measured with accuracy, but can only be estimated, and claims will be due at wholly uncertain times in the near and distant future.

TAXES—LEGISLATIVE RESTRICTION

Bearing in mind the elements which go to make up this business, the matter of legislative restriction presents a difficult problem. It must be remembered that in insurance no values are created; they are only distributed, and whatever a company distributes must be collected. Any taxes which are imposed upon these corporations are paid by their policyholders, whose insurance costs them that much more than it otherwise would. The expense of administering the affairs of such an institution is also borne by the policyholders, and any unnecessary cost which is entailed by any of the requirements of the law is adding that much to the amount which is paid for this protection.

It is quite clear that the public should be protected, so far as this can be done, against the insolvency of insurance companies. Before one enters a theatre or a hotel, it would be well if he could himself examine the safety of the building, but since this is out of the question, the next best thing is a building law. It would certainly be desirable before one takes a policy of insurance if he could personally examine the company in which he proposes to insure, but as this cannot ordinarily be done, it is proper to have laws which shall require these companies to be safe, and also that their

affairs shall be made public, in order that each one may have the opportunity of forming an intelligent opinion as to the responsibility of the insurer.

There is no more inexorable, economic fact than that unwise and unsound legislation will either raise the cost of insurance or drive companies out of the business.

While there are many elements of similarity in the rights, privileges and duties of corporations engaged in the various branches of insurance, the subject of legislative control is so complex that it will be best at this time to consider only one branch of this business, namely, life insurance.

LIMITATIONS AND REQUIREMENTS IN LIFE INSURANCE

It would be interesting to trace the causes and history of the laws which have from time to time been placed on the statute books of the different states, but for the present discussion it need only be said that the principal limitations and requirements are of comparatively recent date, and may be divided into two classes: Those which are definitely laid down by law, and those which are created by the public officers who are charged with the supervision of these corporations; but though appeals may be taken from the demands of these officials, such a course is rarely resorted to, and the two may well be considered together.

The state insurance commissioners have for many years met in annual convention for the purpose of determining in what way they can best protect the public and the companies, for one cannot in the end flourish at the expense of the other. Every state in which a company does business requires it to file, among other documents, an annual statement, and much time and ingenuity has been devoted by the commissioners to framing questions which will disclose the real condition of these companies and their yearly progress. Publicity, if it can be secured in such form as to be intelligible to the average citizen without misleading him,

is perhaps the most effective means of guarding against fraud, extravagance and ignorance, and at the same time fostering qualities of thought and care among the people.

The annual statement is now required to be made in form developed by and agreed upon by practically all insurance commissioners. It is an elaborate affair, and requires not only the details which would ordinarily be kept by a careful and systematic concern, but also many involving much expense, the value of which is, to say the least, doubtful.

INVESTMENTS

Inasmuch as policies of life insurance in many cases run for long periods, and because a company once issuing a policy has no power to increase the premium or change any of its conditions, it is of the utmost importance that such a corporation should always be in condition to meet policy obligations which may not mature for many years. In a bank the depositor always has the right—which he frequently exercises—to withdraw his money, but in a life insurance company, payments are supposed to provide for a sum, the date of the payment of which is altogether uncertain. The fund which is to make good the policy reserves must, therefore, be invested with peculiar care, and at a rate of interest which has some relation to the rate at which the reserves are running. For these reasons it seems to be entirely proper that laws should be enacted limiting the investments of such a company to those securities which will meet the peculiar requirements of this business.

While no law can compel intelligence and skill in the management of any corporation, yet it is proper that the statutes should set up a basis for calculating the future liabilities assumed. Such laws are now common and require a sufficient amount of assets to be held to cover liabilities calculated on some standard mortality table, and at a rate of interest which will probably be received in the future.

NEW BUSINESS

It has not been until recently that state governments have attempted to fix the limits to which life insurance companies may go in incurring expense in securing new business, and in conducting the entire affairs of these corporations. The state of New York in the year 1906 enacted a law of this kind, defining these expenses for the companies chartered by the state itself, and furthermore providing that no foreign company could do business in that state unless it should conduct its affairs on the lines laid down in the law for domestic companies. This law was announced to be for the benefit of the policyholders of those companies, and it is a question which is worthy of consideration whether it is a proper thing for a legislature representing the whole people to make laws for a special class, unless it can be shown clearly that the good of the entire public is served.

In considering the propriety of laws, it must be remembered that if all men were good, laws fixing penalty for crimes would be wholly unnecessary. There are men who do not need laws, and there are life insurance companies which do not need them; but this class of companies can well afford to incur reasonable trouble and expense for the general good, if by so doing deception can be prevented and the careless and ignorant protected.

It cannot be doubted by anyone who contemplates the character and condition of the people, that an expansion of life insurance far beyond its present limits would be of infinite benefit to the country in mitigating the losses occasioned by premature deaths, and instilling an appreciation of the responsibilities of the marriage state. But life insurance must be carried to those who need it most, and like every other business, those engaged in it must be paid. The holders of policies can afford to pay not only for the risk, but a reasonable sum for expenses. Rather than be without it, they can afford to pay liberally to have it brought to them. But even a good thing may cost too



much. Cost is usually regulated by the laws of supply and demand, and competition, and it is worth considering whether life insurance can safely be left to work out its own results.

This business offers a tempting field for the legislator.

"LEGISLATIVE EXPERIMENTS"

In treating of a phase of American tendencies, James Bryce says:

"And in the state legislatures they possess bodies with which it is easy to try legislative experiments, since these bodies, though not of themselves disposed to innovation, are mainly composed of men unskilled in economics, inapt to foresee any but the nearest consequences of their measures, prone to gratify any whim of their constituents, and open to the pressure of any section whose self-interest or impatient philanthropy clamors for some departure from the general principles of legislation. For crotchet mongers as well as for intriguers there is no such paradise as the lobby of a state legislature. No responsible statesman is there to oppose them, no warning voice will be raised by a scientific economist. Thus it has come to pass that, though the Americans have no theory of the state and take a narrow view of its functions, though they conceive themselves to be devoted to 'laissez faire' in principle, and to be in practice the most self-reliant of peoples, they have grown no less accustomed than the English to carry the action of government into ever-widening fields. Economic theory did not stop them, for practical men are proud of getting on without theory. The sentiment of individualism did not stop them, because state intervention has usually taken the form of helping or protecting the greater number, while restraining the few; and personal freedom of action, the love of which is strong enough to repel the paternalism of France or Germany, has been infringed upon only at the bidding of a strong moral sentiment such as that which condemns intemperance. So gradual has been the transition of this new habit, that few

but lawyers and economists have yet become aware of it, and the lamentations with which old-fashioned English thinkers accompany the march of legislation are in America scarcely heard and wholly unheeded.

"As the field of ordinary private law and administration belongs to the states, it is chiefly in state legislation that we must look for instances of governmental intervention. Recent illustrations of the tendency to do by law what men were formerly left to do for themselves, and to prohibit by law acts of omission and commission which used to pass unregarded, might be culled in abundance from the statute books of nearly every commonwealth."

SAFETY ONLY IN WIDER COMPREHENSION

The question may fairly be asked whether the burdens and restrictions placed upon life insurance are worth what they cost, and if they are not, how they are to be modified. There is every reason to believe that they come from a failure on the part of the intelligent public to comprehend principles and scope of this business. Its prosperity and safety lie in that education which has been rapidly spreading and which can be guided into the right path by men whose intelligence and standing fit them to lead the people to a comprehension of what this institution can do in the development of civilization.

WHAT IS INSURANCE?

Many Forms of Its Beneficence Recommendations for Remedy of Its Evils

(Delivered before the Economic Club of Providence, R. I.)

WHAT is insurance?

Insurance is a contract whereby one for a consideration undertakes to compensate another if he shall suffer loss. All that is requisite to constitute such a contract is the payment of considerations by the one, and the promise of the other to pay the amount of loss agreed upon in the contract to the person entitled to claim it, upon the happening of the contingency contemplated in the contract.

It had its origin in the necessities of commerce, it has kept pace with its progress, expanded to meet its rising wants and to cover its ever widening fields, and under the guidance of the spirit of modern enterprise, tempered by a prudent forecast, it has from time to time with wonderful facility adapted itself to the new interests of an advancing civilization.

It is applicable to every form of possible loss. Wherever danger is apprehended or protection required, it holds out its fostering hand and promises indemnity. This principle underlies the contract, and it can never, without violence to its essence and spirit, be made by the assured a source of profit, its sole purpose being to guarantee against loss or danger. "Though based upon self-interest" said De Morgan many years ago, "yet it is the most enlightened and benevolent form which the projects of self-interest ever took. It is in fact, in a limited sense and a practicable method, the agreement of a community to consider the goods of its individual members as common. It is an agreement that those whose fortune it shall be to have more than average success shall resign the

overplus in favor of those who have less. And it has as yet been applied only to the reparation of the evils arising from storm, fire, premature death, disease and old age, yet there is no placing a limit to the extensions which its application might receive if the public were fully aware of its principles and of the safety with which they may be put in operation."

THE VALUE OF A HUMAN LIFE

It can now be inquired whether a human life can have a definite worth which can be measured with any degree of accuracy. It would not be difficult to enumerate many lives which can not be considered of any pecuniary value because, for various reasons, they produce nothing. Such are those of the very old, the imbeciles and the confirmed invalids. But the life of every man who earns more than suffices for his actual personal expenses is of pecuniary value to some one beside himself. This has been recognized from early times in the institution of slavery which was based on the principle that the ownership of the services of a human being had a value in accordance with the excess of earnings obtainable above the necessary cost of subsistence. When a slave was purchased as an investment, he was examined in order that the state of his health and his muscular development might be known. These qualities in connection with his age, his skill in any variety of labor, and his disposition, determined the price at which he seemed likely to be a profitable investment. A carpenter or blacksmith was worth 50 per cent. more, other things being equal, than an ordinary field hand, because while the cost of his support was no greater, the quality of his service was much more valuable. In any case, however, certain important elements were either wholly lacking or but partially developed. "A person who can acquire no property can have no other interest but to eat as much and to labor as little as possible."

Family ties are needed to develop the highest value of a human life. But while this value thus reaches its greatest capacity, there devolves upon its possessor

the responsibility of supporting those who have by his own choice and act the right to depend upon him for the necessities of life. The family, then, has a clear and indisputable interest in his earnings. This they have day by day, month by month, and year by year, and this interest extends into the future as far as they need it. Without it they will suffer privation or be dependent upon charity, in either of which conditions their natural protector has no right to place them. If he dies possessed of property, this by right goes to them in order that they may, so far as its income may enable them, continue to defray the cost of existence.

But what of this life itself? Has it a value beyond what it produces in a month or a year which can be measured with any degree of accuracy? Supposing its possessor to be of good constitution and free from hereditary taint, it can be shown that he and others of his class will be governed, as to the length of their lives, by a law of mortality so certain that their average lifetime may be measured with as much precision as that which governs any series of future events, and the present money value of any such life can be valued with an accuracy at least equal to that which characterizes market transactions in other kinds of property.

DOES LIFE INSURANCE PERFORM A SERVICE TO THE PUBLIC ?

It will not be denied that certain persons must and should be supported at the public expense, but the fewer there are of these the better will be the morals as well as the finances of the community, and life insurance is continually reducing this dependent class. It is not the man who lives to old age, supports and educates his children and saves a competency, who contributes to the class who are applicants for public charity. But the one who is taken away while his children are infants and who has not had the time given him, no matter how affectionate and thrifty he may be, to provide for their needs, is a liberal contributor to the membership of the orphan

asylum and almshouse. He may avoid this danger by postponing marriage for such time as will enable him to accumulate a sufficient sum to insure the comfort of a family, but neither mortality nor the public welfare will be best served by the establishment of such a principle. There is but one way by which he can follow the course which nature intended him to take, and that way is open to him through life insurance. By the payment of comparatively small sums at convenient intervals, he can relieve himself of the responsibility of the distress which would fall upon his dependents in case of his premature death, and he can, moreover, provide for his own future in case he should survive the time when, from physical weakness, he shall become incapacitated from earning his own subsistence.

IS LIFE INSURANCE OVERDONE ?

The value of human life lies at the foundation of every other property, and if a fair computation could be made of it, it would no doubt appear that its sum total is greater than the amount of all other possessions. The man who has a building which is liable to be destroyed by fire will not sleep well unless it is covered by fire insurance, because its loss will affect him personally, and he comprehends very clearly that this catastrophe is liable to happen at any time. He is not so eager to protect his family, because, whether he knows and acknowledges it or not, the loss of his valuable life will not cause him personal financial inconveniences, so far as he knows.

Aside from the individual family, the state is much more interested in having his family provided for so that they will not become public charges, than it is in having his building insured, for this can be replaced by himself by industry.

The census of 1900 showed that there were in the United States 26,100,000 children under 15 years of age, about 900,000 persons over 75 years of age, and 13,200,000 married women between the ages of 15 and 65. The married men between 20 and 65

years of age numbered more than 12,000,000. By far the greater part of these 40,000,000 children, married women and old people, depended for their subsistence upon these married men. In many, and perhaps most cases, nothing but the earnings of these men stood between the dependents and public or private charity.

HOW IS THIS PROPERTY PROTECTED ?

The life insurance companies doing business in Connecticut had outstanding at the close of last year about \$9,000,000,000 of insurance, and this included policies on lives now beyond an insurable age and those held for investment, so that the actual amount carried by those who need it is much less.

The fire insurance companies doing business in Connecticut in the same year had outstanding insurance amounting to some \$26,000,000,000. These figures may not prove much, but they indicate I am sure some things that are worth considering.

WILL PEOPLE VOLUNTARILY SEEK LIFE INSURANCE ?

A man who has saved some money will find his way to the savings bank and place it where it will earn something and where he can get it at any time for his own use. If he has a building he will take the trouble to have it insured. Will he insure his life of his own accord, even if he is convinced that some life insurance company will carry his risk at a small expense ratio?

In the year 1904 there was living in a small town in Alabama a young farmer named Robert Burt, 25 years of age. He was sober, industrious and frugal, and had some two years before that time married the daughter of a neighbor. While he had saved about \$100, at the time of his marriage, this had been used for some articles of furniture, and in certain other expenditures which happened to be larger than the expected cost of living, so that at this time neither he nor his wife had practically any property aside from

the value of his own life, which was sufficient to support his wife and himself, together with their child. He had every reason to believe that his income would increase with experience, and felt no anxiety for the future.

An agent of a northern life insurance company, however, in the course of his travels visited Robert Burt and explained to him the nature of life insurance, and why as he was situated it was his duty to secure some protection for his wife and child. After giving the matter careful consideration, he concluded to take a policy on his life at that time and hoped to increase the amount in the future. The agent prepared the application, secured a physician who had been appointed by the company to make its examinations, had Robert Burt examined, sent his application to the head office of the company, and in due time received the policy, for which he paid the first premium of \$21.02. Of this amount the agent received a commission of \$10.51, and out of the remainder paid the medical examiner for his services. More than 50 per cent. of the premium went for expenses.

Within twelve months Robert Burt was taken sick and died, and his family received \$1,000, which was all they had, the farm having been rented. The question arises whether this insurance cost too much,—whether Robert Burt should have read the newspapers and taken mathematical advice as to whether life insurance was not more expensive than it ought to be, and whether he ought not to have refused to take a policy unless it could be shown to him that the expense ratio of the company was less than 10% of the premium, which it probably would have been had it not been for the fact that the agent was earning a living in this business and also had a family to support.

Was life insurance a good thing for Mrs. Burt? Was it worth what it cost? Would it have been better if Robert Burt had been left to his own resources, and would he have been likely to have communicated with some life insurance company, had it not been for the agent? Was the agent engaged in an honorable and legitimate occupation? These are all interesting ques-

tions at this time and deserve very careful consideration.

DISTRIBUTION AND SAFETY*

Can life insurance be widely distributed with safety without agents?

Let us take another point and assume that at this time there was a life insurance company in New York of considerable size and strength, conducting its business on a low ratio of expense, but without agents; and let us assume that Robert Burt heard about this company, thought about life insurance, decided that he ought to have it, communicated with the company, secured the necessary blanks, hunted up a physician, submitted himself to an examination, forwarded the papers to the company, that they issued the policy and he paid the premium. He had a neighbor who knew of the large sum which had been received by the family compared with the small amount of the premium. Peter Jones, while he was a hard working man, knew that he had a trouble which would cause his death within a short time, and it occurred to him that an opportunity was offered for an exceedingly favorable operation for his family, and so he communicated with this company, secured the papers, filled out the application, without too much regard for facts, visited a physician he knew was careless and intemperate, had him make an examination when this doctor was under the influence of liquor, forwarded the papers to the company, and they appearing all right, the policy was issued, which, as was expected, became a claim within a short time.

Without an agency organization, without a corps of selected physicians, any company would be a prey to designing men, and its career would inevitably be short.

Is an institution maintaining an organization which not only will gather members from distant points, but will also do it in a way which will be safe, doing a valuable work for the people at large—not only for those who directly take advantage of its

services, but also for others who help maintain almshouses and orphan asylums?

Is it possible to compare the expenses of an institution of this character with those of a savings bank?

Is it reasonable to claim that because the expense ratio of an old established company is too high, that that of a young and growing one, honestly and intelligently managed, should be less?

Is it best for the public that all life insurance should be done by the company which can show the smallest ratio of expense to income?

The man who seeks the truth should answer all these questions before he condemns the institution of life insurance.

OTHER QUESTIONS

I find that I have asked a good many questions, each one of which from my standpoint admits but one answer. But at this time other questions are being propounded which we should not overlook, and which those who are interested in the welfare of humanity must answer if we are to accomplish what all right-minded men desire, and that is, justice and the best good of all.

Have some life insurance companies, professing to offer the most sacred kind of protection at the lowest possible cost, been used by their managers for personal and improper purposes? The answer must be, "Yes."

Have some life insurance companies made statements for the information of their policyholders and to attract additional members, which statements were not in accordance with the actual facts? The answer must be, "Yes."

Have some life insurance companies used the funds of policyholders in ways which were not only not within the spirit of the policy contracts, but also were demoralizing to the public? The answer must be, "Yes."

Have some life insurance companies incurred expenses which were not for the benefit of their policyholders? The answer must be, "Yes."

RECOMMENDATIONS

Have the disclosures which have been made within the past few months carried the idea to many reasonable and thoughtful men that the vices which have appeared are the rule in the general practice of life insurance rather than the exception? I think the answer will be "Yes." Is this just? The answer must be "No"; for there are many life insurance companies whose practices have been honest and fair, whose business has been conducted for the benefit of policyholders, and whose general record will compare favorably with that of any other class of corporations. The public will scarcely be satisfied, however, unless these matters shall receive the attention of the law makers, and attempts shall be made to cure evils by legislation and it is, therefore, clear that it will be for the best interests of life insurance that some laws shall be passed. I have been asked to make suggestions in this line, and I trust that it may not be without interest to take up some of the points which have been considered by the public as a result of the recent investigations.

- 1.—Publicity.
- 2.—Limit of Size.
- 3.—Deferred Dividends.
- 4.—Investments.
- 5.—Contributions.
- 6.—Responsibility of Directors.
- 7.—Expense.

1.—Publicity. The present form for returns to the various insurance departments is amply sufficient for showing the financial condition of a life insurance company, and if the answers to all the questions are full and accurate, and the required oath is carefully considered by those who sign it, the operations of any company will be fully disclosed. I suggest in addition to the present requirements, that companies be prohibited from including in any profit and loss or similar account any disbursements for expenses of any kind, and that such account be allowed to include only credits and charges on account of assets, and that a

detailed report of any such account be furnished the insurance commissioners.

2. Limit of Size. I suggest that looking into the distant future, it might be wise to establish a limit in the matter of outstanding insurance, beyond which a company should not go, excepting for reasons which might apply to some particular institution. It is conceivable that a company having \$500,000,000 of outstanding insurance might accumulate \$250,000,000 of assets. Such a company could be kept in a perfectly healthy condition and could give good service to its policyholders, if it were permitted to maintain its outstanding insurances by issuing new ones only for sufficient amounts to counterbalance the withdrawals; and I suggest that if this limit were fixed, and no company having a greater amount outstanding should be permitted to increase its volume, no damage would be done to present policyholders, and the best interests of the public would be served. It might be well in this connection to provide that the insurance commissioner should have power, in view of conditions which might be made known to him, to issue a written order permitting an extension of this limit on such conditions as to locality and amounts as might seem to him on the whole desirable.

3. Deferred Dividends. I suggest that a life insurance company, if it be permitted to issue deferred dividend policies, should be required to annually declare and credit to each policy on any such plan a certain dividend, but allowed to couple with it a provision that it, together with any further accumulations, should be payable only in event of the policy being continued in force for a certain number of years. This dividend should be in no case less than it would have been if the policy had been on the annual dividend distribution plan, if the company issues both annual and deferred dividend policies, and such dividends should be included in the liabilities and not in any case appear in any surplus. Any policyholder should be permitted to know the amount of his accumulations at any time, and in any event should be informed at periods not longer than five years.

4. Investments. Statutory provisions as to investments, while prohibiting syndicate and financial underwriting transactions, should not be as drastic as the provisions covering investments of savings banks. These latter institutions are mainly local in character, and dividends to depositors are based only upon the net returns of interest which they receive upon their investments. Life insurance companies do an extended business, and the laws as well as the principles upon which they conduct their affairs require that to maintain solvency these trust funds shall be improved at interest of at least a given rate per cent. Many of these institutions secure for their members a much higher rate than savings banks, and this without incurring any great risk. The laws of Connecticut touching investments which may be made by life insurance companies are suggestive, and I commend them to your consideration.

5. Contributions. I suggest that laws be proposed prohibiting contributions for political, benevolent or charitable purposes.

6. Responsibility of Directors. It seems proper that the law should provide that all business transacted at a directors' meeting should be brought to the attention of the directors present in such a way that their responsibility shall be determined solely by the record of their votes. To that end I would suggest individual record books for each director, comprising a printed record of business to be reported at each meeting, and similar to those in use for many years by the company with which I am connected. These individual record books are for use of the directors only at their meetings, and are never taken away by them. This record of course should be at all times open to the inspection of the insurance commissioner, that he may be able to decide whether the laws are being complied with so far as they apply to the knowledge and responsibility of the directors.

7. Expense. A matter about which much has been said is that of expense. The lives of some millions of Americans are insured in the life companies of the United States, which corporations hold for the

final payment of these policies a very large amount of property. So many persons have come to rely upon these companies for protection to those to whom they are under obligations, and the probable future growth of this business is so great, that the best interests of the public demand that there should be many separate institutions engaged in carrying these risks. Laws limiting expense might be passed to the advantage of those companies which have attained considerable size, but which if applied to companies recently organized would prevent further development, and would make it impossible for any other similar corporations to be undertaken. Proper laws providing for financial strength and accurate statements, together with the force of competition, if there were a yearly disclosure of dividends earned on individual policies, would probably regulate this question as fully as it can be brought within reasonable statutory requirements.

THE COST

In the preparation of these suggestions concerning this most interesting and important subject, I have endeavored to view it from the standpoint of one who considers, not the individual company, nor indeed any class of companies, but rather the business as a whole, its purposes and possibilities; what it does for the individual and what it does and can do for the state. I believe that life insurance is a good thing and I believe that the more widely it is spread among the people, the better will be not only those who are directly interested in it, but the entire nation. I know that the protection that it affords cannot be widely distributed except through the efforts of agents and I know that it cannot be safely done over any considerable territory without local representatives and physicians, and without constant inspection from the home office. I know that it costs a great deal of money to construct and start the necessary machinery, and while this operation is going on the expense account will be large, but I know that when once it is thoroughly built of good material, and running smoothly it will be worth to policyholders and the public all that it has cost.

SERVICE AND SCOPE OF LIFE INSURANCE

(Delivered before Philadelphia Ass'n of Life Underwriters)

I BELIEVE in the power for good which lies in the organizations of life underwriters. Whether circumstances have placed us in the home offices or in the field, we are all engaged in the same work, the strengthening, purifying and uplifting of the best business in the world. The man who causes another to take insurance on his life performs a service to the individual and to the state, for he increases the happiness and prosperity of the one, and decreases the expenses and dangers of the other.

It is in the line of duty as well as for our own interest to seek for the causes which lead to practices which tend to degrade our profession in the eyes of the public, and to injure the institution which we are bound to protect and to elevate. Our business suffers from rebating, which not only deprives the laborer in the field of life insurance of his legitimate and well-earned reward, but also casts discredit upon this most beneficent of all interests, by seeming to admit that the premiums charged are more than necessary. We hear of the evils of twisting and competition for the individual case, which lead to unworthy arguments and misleading comparisons between different companies.

And what lies at the root of these evils? If there was but one company doing a life insurance business, there would be no rebating, nor twisting, nor defamatory literature, nor excessive estimates of future dividends, for the simple facts would appeal to all persons, and the real merits of the institution would be a sufficient argument in its favor.

If every agent believed that there were five or ten uninsured persons to every one insured, it would seem natural that he should spend his time and talents in educating the public to understand what it all meant,

rather than to strive by unworthy methods to deprive his fellow laborer of the fruits of his toil, and thus degrade his business to his own final loss.

LIFE INSURANCE OVERDONE ?

And is life insurance overdone? Is there no longer fresh material to work on, except as it is supplied by new candidates who are reaching the age and condition for insuring their lives?

Life insurance exists for the purpose of repairing the loss occasioned by the death of the individual who can produce more than the cost of subsistence. We can measure the value of a single life with as much accuracy as we can the worth of other classes of property. The total present value of the future earnings of a single individual can be estimated, but the aggregate present worth of the future efforts of the entire working community can scarcely be even conjectured. If that could be known, it would appear that the chief part of the values of the world consists not of lands and buildings, nor of railroads and ships, nor stocks of goods, nor minerals, but of the earning power of the human family.

Let us glance at some of the conditions which exist in the state of Connecticut. The census of 1900 shows us that there were in that state in that year 385,610 persons engaged in all occupations; of this number 186,675, or somewhat less than one-half, were engaged in manufacturing, and the amount paid by these establishments in wages and salaries during that year was \$95,053,775. Of this amount it seems reasonable to assume that two-thirds, or say \$60,000,000, was expended in the support of others than those earning this income. If it is assumed that the average age of these producers is 30 years, and the present value of an annuity at that age is \$17, and that on the whole the mortality among these persons will follow the table rate, it appears that this income represents a present value of future earnings of more than a thousand million dollars, any portion of which capital is liable to be cut off in any hour of any day. But these

figures apply only to those engaged in one branch of labor, and this probably on the whole less remunerative than the sum total of other occupations.

The grand list of Connecticut in the year 1900 amounted to \$694,000,000. This represents the amount of property subject to direct taxation in the state, by far the greater part of it consisting of real estate and buildings. Theoretically, these properties are placed in this list at somewhat less than their actual value, but it is doubtful if taking the whole state together, the value of real estate and buildings is materially greater than that placed upon them in the grand list. From estimates which have here been made, there can be no doubt whatever that the present value of the future earnings of those engaged in various occupations in that state is many times the amount of the grand list.

PROTECTION, RELATIVELY

Let us now see what protection was provided in that year by the citizens of Connecticut against the loss of this capital. The report of the insurance commissioner for the year 1900 shows that there were at the close of that year life insurance policies outstanding on the lives of citizens of the state, amounting to \$149,970,752 of insurance. Some of these have been in force for many years, and it is certain that the average age of these policyholders is much higher than that of the general population. Assuming it to be 50, it appears that this amount of insurance represents an income which it is intended to protect of about \$12,000,000, or about one-eighth of the sum paid in that year to those engaged in manufacturing alone. It is evident that this protection is far less than the amount at risk, and that the community is therefore constantly sustaining losses by death which are repaired only to a comparatively small degree. Making allowance for the fact that many of the persons who are engaged in remunerative labor of various kinds are uninsurable, and that there are some who by reason of their financial condition do not need insur-

ance, we cannot escape the conclusion that in Connecticut alone there is not one-tenth the amount of insurance carried by its citizens which there should be, and this in a state which has had its own life insurance companies for more than fifty years, and in which many of the best and most active companies in the country are represented.

If this is the condition of things in the old and respectable and intelligent state of Connecticut, it is not unreasonable to believe that the field in other sections is not more thoroughly covered.

I will not claim that we are engaged in this business solely for philanthropic reasons, but every one of us must feel a satisfaction, that while we are earning our living, we are at the same time educating and benefiting our fellowmen.

The life insurance agent is supposed to prosecute his business thoroughly, but he will not accomplish his full mission until the education of the public has proceeded to a point where the real purpose and the actual benefits of life insurance are far better understood than they are at this time.

The physician and the clergyman employ their time and talents in improving the physical and moral condition of the people, and in lengthening and rendering more efficient their services; they thus add to the value of the state. But they cannot repair the loss by death, which is inevitable. Life insurance is the only agency which can make good or modify this loss of the individual and of the state, and we shall not only benefit the public, but ourselves as well, if we devote our time to explaining what life insurance has done and what it can do, and to extend its protection over those who need it the most and who have it the least.

We in the home offices can do much to elevate our common calling, but in many directions we are powerless without your co-operation. Together we can accomplish all things needful.

INTEREST OF STATE

Life Insurance Means Less Expense for Almshouses and Orphan Asylums

(Delivered before Legislative Committee at Albany, N. Y.)

AT the close of the year 1904 there were in force in New York state in what may be called the regular life insurance companies, 706,000 policies representing obligations due at various times in the future amounting to \$1,490,000,000. These companies paid in the state in that year claims amounting to about \$21,000,000. Of this there were outstanding in companies chartered by other states, but doing business in New York, 248,000 policies, representing insurance to the amount of \$501,000,000, an average of about \$2,000 for each policy. These companies in that year paid in the state in claims about \$6,400,000. This business constituted in a general way about one-tenth of the total operations of these foreign companies.

Life insurance corporations located outside of New York state in the five years from 1900 to 1904 inclusive paid in claims alone in New York over \$29,000,000. In the year 1904 these companies placed in New York state 50,000 policies for \$85,000,000 of insurance, an average of about \$1,700 for each policy. Practically all of these policy contracts were issued upon applications secured by agents operating in that state.

It will not be denied that the people of New York have the right and the power not only to regulate, build up or destroy their own corporations, but they also have the right to prescribe upon what conditions corporations of other states shall be permitted to do business with them.

The bill which is before you provides, in some of its features, not only how these corporations shall do

business with the people of New York state, but also in many ways how they shall conduct their entire affairs, and it is, therefore, a serious question whether such a corporation can properly comply with the conditions which may be prescribed for the privilege of transacting business in the state.

These outside companies have many policyholders in New York state whose interests can best be cared for through agents. These agents have devoted themselves to the legitimate work of spreading abroad among the people the protection of life insurance, and their withdrawal from the state would inflict a damage upon them which it is the duty of the managers of these companies to avert if they can do so by fair arguments.

NECESSITY OF AGENTS

Life insurance has never been done to any considerable extent except through the instrumentality of agents, and it is perfectly safe to say that it never will be. This is shown conclusively by the experience of many companies, especially those in England. The Equitable Life Assurance Society of London—one of the strongest of all life insurance companies, having been in business continuously for more than 150 years, located in the heart of the greatest city in the world, within easy reach of many millions of people, but prohibited by its by-laws from employing agents—has issued in the past thirty years an average of less than 300 policies a year.

A life insurance company is not a savings bank. It exists not for the purpose of receiving money, improving it at interest and returning it to its depositors, but to repair the loss occasioned by the termination of a life valuable to those dependent upon it and to the state. The premium required to meet this loss must be sufficient not only to make good the loss itself, but also to meet the necessary cost of bringing this protection to the insured, to pay reasonable expenses of conducting a large, complicated and delicate business, requiring skill, integrity and experience, and the taxes

levied upon it by the various states in which the operations are conducted. A mutual life insurance company exists for the purpose of furnishing to its members sound insurance in such forms as best suit their various needs, at as low a cost as possible. Whether this can be accomplished in each individual case by increasing the number of policyholders or going into liquidation must be left to the judgment of those whose knowledge of the affairs of the institution is sufficient to enable them to intelligently decide so important a subject. If an increase shall be deemed to be for the good of all, the terms and conditions upon which this shall be made and the localities where new members shall be admitted must be decided by the careful consideration of all surrounding circumstances, and these cannot be known except by those who have an intimate knowledge of every detail of the situation.

A mutual life insurance company must charge equal rates and equity must prevail in the apportionment of its surplus earnings. But this is not all. If it has but one scale of premiums, it must be sure that its members must, in the quality of the risks assumed, be on an equality. It must also issue to its members policy contracts alike in terms and conditions. It would be as false to principles of mutuality to insure good and bad lives on the same terms, as it would be to discriminate between individual members in allotting surplus.

PROTECTION FOR BOTH PARTIES TO CONTRACT

In what way can this balance best be secured and preserved? Plainly, in a business obtained chiefly at a distance from the home office, the greatest care must be exercised that the personal history and physical condition of the applicant shall be known. A competent medical examiner and a faithful and honest agent are essential. No contract should be entered into without a full knowledge by both parties of all material facts. The company must know the condition of the applicant. The applicant must know the condition of the company. The agent must be the medium through which this information is exchanged.

In what way can both parties be most effectually protected?

If the compensation which the agent receives for his labor is dependent not only upon the payment of the first premium, but also upon the continuance of the policy, then it will be directly for his interest that the policyholder shall live to pay, shall be satisfied with his contract and that the company shall meet with success, in order that it may retain the confidence of its members and the public. As renewal premiums are paid the agent can and does perform many services for both parties for which he is entitled to fair remuneration.

The system of renewal commissions extending over a considerable period is not in the nature of a bonus, but is of distinct value, and the instances are rare where the agent, under this form of compensation, receives more than his services are reasonably worth, or more than the company or the policyholders can afford to pay. Life insurance agents are engaged in an honorable work upon which they rely for support of themselves and their families. Their occupation is one of as much dignity, importance and value as that of the minister, the lawyer or the doctor, and they undoubtedly receive less for the amount of intelligence, ability and labor required for their work than almost any other class of laborers.

WHO MOST NEED INSURANCE

It is not those who can afford to carry large policies who need life insurance most. It is those who can only afford to pay comparatively small premiums, and any law which would tend to restrict the business of life insurance companies to the wealthy, and even the well-to-do class, would certainly deprive the far more numerous class of this protection.

That portion of the bill which is before you which seeks to regulate the amount to be paid for new business and for collecting renewals, after making moderate allowance for other necessary disbursements, would leave a compensation to be divided between the solicitor and the general agent under which life insurance cannot be brought to those who need it most.

This bill would destroy agency organizations which have cost much money to establish.

Many of these companies have been conducting their business for more than fifty years, honestly, faithfully, economically and unselfishly serving the public. They have adjusted their premium rates and their entire policy contracts upon equitable and safe principles, and that section of this bill which seeks to dictate the premiums which shall be charged would be an interference with those principles which have been established after many years of experience and most careful consideration.

COMPETITION

All life insurance companies doing business in any state should be required to maintain a condition of perfect solvency; should be regulated to a reasonable extent in the investment of these sacred trust funds; should be required to give the public full information of their operations. Competition and public opinion will be far more powerful to keep these companies economical and honest than statute laws.

No matter approaching this in importance in its far-reaching results has ever before been brought to the legislature of this or any other state for decision. No one at all familiar with the history of life insurance can doubt that the requirements of this bill, if enacted into laws, would place all the companies engaged in this business in a condition of practical liquidation.

The officers of these companies are the custodians of the most sacred trust known to the business world. They acknowledge their responsibility to their policyholders, but they demand that fair treatment which legislators are bound to accord to those who are earnestly striving to fairly administrate the great interests which have been placed in their hands. They welcome proper safeguards, but they object to interference in the details of their affairs which can be known and adjusted only by those who have studied them long and earnestly.

CURTAILING PUBLIC EXPENSES

A bill which openly has for its object the prohibition of the transaction of the business of life or any other form of insurance can be met and argued frankly, but one which means the same thing, but which is covered up with technicalities not easily understood either by its framers or by the public may lead to consequences not intended even by those who advocate it.

The interest of the state is deeply concerned in this matter. Life insurance is conceded, by those who have given social questions the most study, to be of all institutions the most powerful in curtailing the public expenses connected with the suppression and punishment of crime and the caring for those who cannot care for themselves. If any laws should be enacted which would in the end do away with the distribution of the millions of dollars which are annually paid out to the beneficiaries under life insurance policies, it would inevitably result in very greatly increasing the appropriations necessary to be made from the public treasury for the maintenance of almshouses and orphan asylums.

IS LIFE INSURANCE WORTH WHAT IT COSTS ?

(Delivered before the Boston Life Underwriters' Ass'n)

LIFE INSURANCE came into existence to meet a definite need arising out of the conditions of civilized life.

Banks of deposit became necessary when commercial transactions reached the point where it was practically impossible to exchange commodities, and thus realize upon the labors of different classes of people. The savings bank system grew out of the desire of thrifty persons to lay aside small sums which could not be invested separately, but the aggregate of which could be used to advantage.

Marine and fire insurances were first thought of because individual losses proved ruinous, whereas if they were distributed among a considerable number, each one could bear the burden.

The purposes of life insurance can scarcely be expressed better than in the petition which was presented to the Secretary of State's office in 1757 in the application for a charter for a new life insurance company in Great Britain, as follows:

"That great numbers of His Majesty's subjects, whose subsistence principally depends on the salaries, stipends and other incomes payable to them during their natural lives, or on the profits arising from their several trades, occupation, labor and industry, are very desirous of entering into a society for insuring the lives of each other, in order to extend after their decease the benefit of their present incomes to their families, and relations, who may otherwise be reduced to extreme poverty and distress by the premature death of their several husbands, fathers and friends, which humane intention the petitioners humbly apprehend cannot be effectually carried into execution without his majesty's royal authority to incorporate them for that purpose."

The sentiment expressed in this petition covers the whole question, and gives the reason for the existence of legitimate life insurance.

The savings bank has its uses for those who cannot for any reason secure life insurance, and oftentimes in connection with it, but the worth of life insurance extends much farther and has to do with the protection of that property without which there can be no other value, and the loss of which cannot be covered in any other way, and that is, the value of a human life.

A NECESSITY

That life insurance is a legitimate and even necessary part of the family and business life of the present day is too generally conceded to need argument. It has existed in one form and another for two hundred years. The maintenance and education of many families rest upon its stability. The credit of many persons whose business affairs require that they shall borrow money depends upon the protection which creditors are afforded by life insurance. In a broader way, it curtails the expense to the public treasury of almshouses and police, of criminal courts and prisons, and of the various other necessary branches of the public service which have to do with the prevention and punishment of crime, and the relief of the suffering and unfortunate.

Some years ago a census was taken of the paupers in the Philadelphia almshouse, with the result that of the number observed—1,110—only three were found who had been beneficiaries of life insurance, and those to the extent of \$6,000, but through profligacy or improvidence they were reduced to a state of pauperism. In a census of the Montgomery County, Pa., almshouse, 133 were examined, and it was found that none of these people or their families ever had been the beneficiaries of life insurance.

IN BUSINESS LIFE

In business life—the investment of the accumulations of small payments held and improved at inter-

est for the final payment of claims has enabled the owners of real estate in cities to improve their properties by building dwellings and business blocks, and to increase and extend every line of business. For many years some of the life insurance companies have been making loans upon western farming lands. These have enabled the farmers of the country to acquire land and to cultivate it, to erect necessary buildings, to buy stock, and to continue their operations through unfavorable years. Lands in sections where these corporations have loaned money have very greatly increased in value, largely by reason of a reduction in the rate of interest which has come through the increase of those funds seeking investment. The development of railroads and other corporations, and the improvement of cities and towns have been possible to a considerable extent through the accumulations of life insurance.

Now, the life of every human being who earns more than is required for his own subsistence has a money value to some one else. The present worth of these future earnings depends upon the length of time during which they will probably continue, and an estimate of them can only be made after considering the age, the condition of health and the circumstances of the individual. Many of these lives are so uncertain in their tenure that no definite value can be placed upon them, but any one which comes within the class represented by a standard mortality table can be valued with an accuracy at least equal to that which characterizes market transactions in other kinds of property. If a value could be fixed for every productive life and a suitable premium could be collected, the insuring of each such life for a certain amount would improve the general condition of society. The value of life would thus be more thoroughly understood, and the moral tone of civilization would be vastly elevated.

MORTALITY TABLES

As a practical question, however, it has proved feasible to protect by insurance only the lives of those

who apply to the various corporations undertaking this business, and these institutions must confine their membership to those who are shown by family and personal history, and physical examination, to belong to certain well-defined classes. For many years by far the greater part of the membership of the life insurance companies has been drawn from a class which is made up of those who are shown to be free from family taint and personal weakness, and all of whom in a general way may be said to have similar prospects of longevity.

Mortality records of one kind or another have been kept for many centuries, but it has not been practicable until within the past sixty or seventy years to ascertain the death rate prevailing among those who have been selected as proper members of life insurance companies. Many tables have been made, differing somewhat, but indicating a mortality table which is a safe basis for life insurance calculations.

While it is true that in the early years of insurance, by reason of careful selection, the actual mortality experienced by prudently managed companies has fallen considerably below the rate indicated by the standard tables, yet it has also been shown that the effect of selection is but temporary, and that under the varying conditions which have prevailed, and are likely to govern the business in the future, these tables indicate a mortality no greater than must be expected in the long run, even by the most skillfully managed companies.

Some recent writers, from insufficient information and superficial examination, have taken the ground that as the mortality shown by the companies is at this time falling below the table rate, a considerable reduction can safely be made in the premiums charged. It is important that the public should clearly understand this point before forming an opinion as to the conduct of the business.

INTEREST RATE

In establishing a premium which shall be charged for a policy of insurance, an interest rate also must

be assumed. There are many policies in force in this country at this time which were issued more than fifty years ago, and there certainly will be a far greater number issued at this time which will still be in force more than fifty years hence. Not only the mortality which is safe, but the rate of interest which can be secured on trust funds in the distant future must be fixed on a basis which will leave no room for doubt on the part of the company undertaking a contract of this kind. These elements and no other enter into the calculation of the net premium. To this net premium must be added the margin to provide for expenses and contingencies. It must not be lost sight of that the business is burdened with heavy taxes; that the cost of maintaining a skillful and efficient home office is of necessity considerable; that an agency force must be paid reasonable compensation for its services. The safe premium which is charged today has thus far proved larger than is necessary; it is likely that it will be so for many years to come. The Equitable Life Assurance Society of London, whose history will be referred to later, has established a scale of rates higher than that of any American company. Surplus accumulations can be allotted to policyholders, but if the premium should ever prove too small, either from an increase of mortality, a decrease of interest, or additional burdens of taxation or other expenses not to be foreseen, there is no escape from bankruptcy, and the failure of a life insurance company entails far more suffering than that of any other financial institution.

USE OF INCOME

It will, I believe, be particularly interesting if we analyze somewhat the sources of income, and inquire what has become of the receipts. For this purpose I have taken the companies doing business in Massachusetts in the year 1904, with the exception of those institutions devoted largely to what is known as the "Industrial" business.

The expenses of life insurance companies may be separated into two divisions—those which are in-

curred in the conduct of the home office, and those which are used to maintain the agency force. Although it is not possible to accurately apportion the cost of caring for outstanding business as distinguished from procuring new members, yet it will be in the interest of fairness and will tend to a fuller comprehension of the facts, if we divide the expenses in this way so far as is practicable, and consider the work done in each department, home office and agency. While the operations of a single year do not serve to show the labor expended in building up this business, yet for present purposes it is sufficiently suggestive to throw much light upon the questions which are agitating the public.

At the close of the year 1904, the assets of the companies operating in Massachusetts amounted to more than \$2,000,000,000, invested chiefly in loans on real estate, stocks and bonds, and loans on policies and other collateral. The interest received upon the assets during the year amounted to about \$90,000,000. These securities must be examined carefully, recorded accurately and kept safely; they must be invested not only with intelligence and honesty, but also at a rate which will yield at least as much as the requirements of the business call for. The care of this property involves the payment of salaries, of rents, of stationery, and of clerical labor of a high character. There was received by these companies in that year about \$350,000,000 of premiums. This came in large and small amounts, each of which had to be credited to its proper account and kept, like all the other accounts of these companies, in such shape as to answer not only general business requirements, but the demands of state officials and of the public.

LABOR ENTAILED

There was paid out during the year more than \$100,000,000 for death claims and nearly as much more for matured endowments, dividends and surrendered policies. This involved many millions of calculations, almost innumerable entries in books, and a careful examination of releases and receipts, which involved a high class of intelligence in employees conducting the work.

More than 700,000 new policies were issued, and the applications not only for these but for many who were declined were examined critically, and passed upon by persons skilled in these duties. At the close of the year there were outstanding nearly 4,000,000 policies, each one of which had had its part in the year's work, for it had to be recorded, and had entered into all the calculations of reserves, and all the investigations which are so important not alone to the companies themselves, but to the public.

It is difficult to comprehend the amount of labor and detail involved in properly and intelligently caring for a business of this magnitude.

The expenses of the home office are represented by expenditures for salaries of some \$7,000,000, and other office expenses of about \$10,000,000, this latter item covering rent, books, stationery, printing, advertising, postage, and all the necessary equipment not only for attending to the old business, but also for furnishing material for agency work. If this total outlay could be apportioned to the different items, the impression which it makes upon the public mind would be very much modified.

I am not criticising or defending individual salaries which may be and no doubt are like those in every line of business or even educational work in some instances too large and in some too small, but I believe that justice demands that the labors performed and the responsibilities carried shall be considered and understood before the whole system and all of its representatives are condemned as extravagant and wasteful.

Medical examinations consumed \$5,000,000. In considering the cost of the business it is not reasonable to include this outlay. It is made once for all; it is a necessary incident of the business; it protects present policyholders; it serves to produce savings in mortality, and above all it works equity between the individual members.

The taxes for the year amounted to more than \$7,000,000, a heavy burden, far heavier than is put upon any similar institution, greater than can be jus-

tified when the nature of the business is taken into consideration. These companies are not responsible for this portion of the expense which falls upon the policyholders.

TO AGENTS

We come now to the sum paid out for commissions to agents and for agency expenses, which amounts to something more than \$50,000,000. Much of this was undoubtedly demanded by policyholders and received by them, and whatever this portion may be, it never benefited the agent or the company. But aside from this consideration, we find that there were issued during the year more than 700,000 new policies, and not only was an application received at the office for each one, but many were obtained after faithful labor only to be declined, and many others were solicited which were never secured. The new premiums were about \$70,000,000 and the renewal premiums some \$280,000,000. Many of these latter were collected only after much labor and persuasion, and in every case a service was performed for the policyholder. While the sum total paid to agents for all duties is large, it is fair to consider that it was paid to many thousand individuals who were benefiting the world by their labors, and without whose efforts the risk of the loss of future earnings would be practically unprotected.

I am not advocating exorbitant commissions and ruinous expenses. I am not justifying the methods employed by any company whose officers are inspired alone by personal ambitions or by desire for the power which magnitude brings with it, regardless of the rights of helpless policyholders. But I do demand that the man who loosely condemns the whole system shall examine the facts in all their details, shall consider what life insurance means to the individual and to the state, and shall clearly understand what experience has shown to be the only method of carrying its protection to those who need it, before he puts in print false ideas which will inevitably deter many from securing this shelter for dependents until it is too late.

Are agents necessary in order that the business shall perform its best service? Experience will answer this question.

Among the various corporations organized for the purpose of insuring human lives, one of the most interesting is the Equitable Life Assurance Society of London, which was founded in 1762, and which has, therefore, been in the business continuously for 143 years. Its first rates were based on the bills of mortality of the City of London, during a period which included the year 1740, when the death rate was almost equal to that of a plague, and were in consequence unnecessarily high.

HAS NO AGENTS

In 1769 the Northampton Table was published, and the rates of the Equitable were materially reduced in 1777. Subsequently they were still further diminished because the experience of the company showed a less death rate than was provided for in the tables from which the premiums were derived.

Throughout the history of this remarkable company, it has been managed with an unusual degree of intelligence and economy. Its lives have been well selected, its funds have been judiciously invested, and its results to its policyholders have not probably been equaled by any other similar institution. Its ratio of expense is much less than that of any American company. In short, it is a model of stability, and it has justly retained the confidence of the English people. At no time in its history has there been any doubt cast upon its financial strength.

Its prospectus contains the following statement: "The Society deals directly with the public without the intervention of the unnecessary middleman. It has no agents and pays no commissions, by which alone members have benefited to the extent of at least two million pounds. All that an applicant has to do is to write to the actuary for a prospectus, which contains full instructions how to proceed."

In the year 1819 there were in force 9,650 policies,

insuring some \$80,000,000. In 1829 there were 8,750 policies in force, insuring something less than \$75,000,000. In 1839 there were 7,450 policies in force, insuring about \$50,000,000. In 1849, 6,000 policies, insuring some \$40,000,000, in 1859 there were 4,650 policies insuring \$30,000,000, in 1869 there were 3,800 policies insuring \$25,000,000 and for twenty years the figures remained nearly stationary. In the thirty years from 1870 to 1900, the Society issued 6,152 new policies, an average of about 200 a year. This company has done a service to its members.

NEEDS OF AGENTS

If life insurance is a good thing for the family and for the state, it may be asked why the benefits of this model society have not been more widely spread abroad. The answer is plain. The taking of a life insurance policy is a particularly unselfish act. The spending of money which will not be returned during the lifetime of him who spends it is not an act which appeals to the taste of the average man, and he is always ready to postpone, if not altogether forego, this particular kind of a luxury. It requires the explanation of the agent as to the nature of the business, what his own company has performed and can accomplish, and all the arguments which he can use in overcoming human selfishness. The business is of such a peculiar nature that it never has been and never will be built up to any considerable extent except by the aid of the agent who must visit and labor with the public. He is a necessary element of the business, and it cannot perform its beneficent work without him any more than the home office can get along without those who shall manage and direct its affairs.

No more convincing proof of the soundness of this statement need be made than that furnished by the experience of the Equitable. In the 99 years ending December 31, 1899, the Society received in premiums about \$130,000,000. During the same time it paid out in claims and surrender values about \$228,000,000. In other words, it paid to its policyholders

and their beneficiaries \$176 for every \$100 it had received in premiums, and in addition to that had more than \$23,000,000 left over. If this sum be added to the payments, it appears that for every \$100 of premiums received, the Society accounted to its policyholders for \$190.

Each one of several English companies in each year through an agency force issues more policies than the Equitable has issued in twenty years. An American company which established an agency in Great Britain not many years ago, through an agency force issued more policies in that country in the year 1903 than the Equitable had issued in thirty years—and this notwithstanding the record the Equitable had made for returns to its policyholders, and the further fact that it advertises to issue nearly all the varieties of policies in use by our companies, and some which are peculiar to Great Britain.

RESULT OF THIS TRIAL

Although only certain companies and individuals are now under investigation I think we need not disguise from ourselves that Life Insurance is on trial before the bar of public opinion. The result of this trial will be of incalculable importance not only to ourselves and to the companies which we represent, but also to the cause of humanity. The occasion has arisen which cannot be obscured or deferred, when we must demonstrate both the reasons for the existence of the institution and the necessity for its continuance and growth.

It will not avail to show what has been accomplished and to make general claims that whatever has been done has been the result of circumstances over which we have had no control. It will not be sufficient to urge that methods adopted by others have compelled us to follow in practices which are in themselves demoralizing and wrong. We have not been drafted, we have voluntarily enlisted in a sacred cause, in a business which had its origin and attains its growth in appeals to the best qualities of human

nature. We cannot hold up to a man the picture of his helpless widow and orphans, and offer to care for them at the lowest cost consistent with safety, and at the same time betray him by using his contributions in ways not strictly within the spirit of the contract.

We have reached a crisis in our business and its future will depend largely upon the verdict rendered by the public when the evidence shall be fairly before them.

THE RIGHT COURSE

We have it in our power to do a service to the cause for which future generations will have reason to hold us in grateful remembrance. While we can and do claim that the world is better for the institution of life insurance, that it has been worth all the cost and labor which have attended its growth and far more, let us also acknowledge our mistakes. Let us admit that we have learned lessons of experience, bitter sometimes but salutary always, that we do not differ from right-minded, earnest and broad men who are as eager to commend the good as they are to condemn the evil. Let us encourage the idea of protection against the loss of future earnings, and discourage the desire of speculation and profitable investment. Realizing that the field for legitimate life insurance is practically limitless, let us take care that we do not infringe upon the rights of our fellow workers, and sacrifice our reputation and our proper rewards by accepting less than what we claim is a fair premium, thus apparently admitting that our contracts are not based on equity and justice.

And let me say here, that while we shall the more quickly secure the confidence of the people if we frankly acknowledge our faults and mistakes, we have a right to demand that a verdict shall not be rendered on one sided and insufficient testimony. And above all let us never forget that the public will not respect us and our calling unless we respect ourselves and each other.

If you have not confidence in your company, you cannot expect to inspire confidence in others, and you

cannot cast discredit upon your competitor without simply postponing the time when the people will believe that the business is conducted with as great a regard for duty as they are asked to have when they are urged to confide their savings to our keeping.

You have done me the honor to ask me to address you on this occasion, and you have, therefore, given me the opportunity of expressing some opinions which I have formed after a long experience in the business and much thought as to its present condition and future prospects.

OPINIONS BASED ON EXPERIENCE

I believe that life insurance is a good thing for the individual and for the state. I believe that legitimate life insurance is not only not overdone, but that it would be for the best good of the public if a vastly greater amount should be carried than is now in force. The census of 1900 shows that there were 385,610 persons in Connecticut engaged in all occupations. Of this number 186,675, or somewhat less than one-half, were engaged in manufacturing, and the amount paid by these establishments in wages and salaries during that year was \$95,053,775. The grand list of Connecticut in the year 1900 amounted to \$694,000,000. The present value of the future surplus earnings of those engaged in manufacturing alone was undoubtedly greater than the grand list. The report of the insurance commissioner of Connecticut for the year 1900 shows that there were at the close of that year life insurance policies outstanding on the lives of citizens of the state representing \$149,970,752 of insurance. The crop is small compared with the size of the field and the richness of the soil.

I believe that the benefits of life insurance cannot be generally spread over the country excepting through the efforts of agents. I believe that the policyholder should be given to understand with the utmost frankness that he cannot get his insurance for the actual mortality cost, any more than he can buy his barrel of flour for the cost of the wheat which goes



into it, or his fire insurance for his share of the actual losses. I believe that the home office employee, whether he be an officer or a clerk, is entitled to reasonable compensation for his service, and no more. I believe that the general agent and the solicitor should be fairly paid. I believe that there are faults in the business which should be corrected, and that there is a better prospect of reformation now than there ever was before.

I do not believe that any ratio of expense to income necessarily proves economy, efficiency, usefulness or the opposite. I do not believe that laws can transform dishonest men into honest ones. I do not believe that the acts of a legislature can produce confidence where it is not deserved.

I believe that public opinion is stronger than statutes, and that that can be secured and retained only by fair and honest practices and absolute frankness in all things. And I believe above all that we have it in our power at this time, by fair dealing toward each other and the public, to win the confidence of thoughtful people, to the end that our business shall be better and greater than it ever has been.

LIFE INSURANCE AND BANKING

(Delivered before the Bankers' Association at Lenox, Mass.)

THE business of the world is conducted on credit. A railroad company borrows money of its stockholders, bondholders and often of others. A manufacturing corporation obtains the means with which to carry on its business from similar sources. A bank organizes by borrowing money from its stockholders, and conducts its operations by borrowing from its depositors. A merchant invests his own capital, and then borrows on the strength of his resources to enlarge his business and increase his profits. Every corporation and individual in active affairs is either a borrower or a lender, and frequently both.

But money is not loaned without security, nor is it borrowed without some guarantee beside the mere promise to pay. Property which is pledged to secure payment is of various kinds—land, buildings, merchandise and evidences of other indebtedness, such as bonds and certificates of stock. Collateral security is defined to be “Any property or right of action, as a bill of sale or stock certificate, which is given to secure the performance of a contract or the discharge of an obligation, and as additional to the obligation of that contract.” No loan is ever made without security, for it would then be a gift, and in a broad way, all loans are made upon collateral security.

The banker has to do chiefly with the loaning of money upon notes, which obligations rest upon the resources of the borrower—merchandise, amount due from creditors, lands and buildings, and upon his personal qualities. These loans are generally made for a comparatively short time. A loan upon real estate is often made for a term of years, but commercial paper is made for but a few months.

It will be interesting to inquire why a savings bank will make a loan for a term of years on a piece

of real estate, and why the same institution will not make a similar loan upon the security which is offered by the note of a merchant or manufacturer. The margin may be quite as great and quite as real in the one case as in the other.

Lenders desire, no matter what the security may be, that a borrower should be of good character. This is true whether they deal with a corporation, firm or an individual. A railroad which is controlled and managed by reputable men can dispose of its bonds to better advantage than one the reputation of whose officers and directors is tainted. The name of an old and honorable firm has a distinct value in the money market. The man who has for many years enjoyed an unvarying record of promptly meeting his liabilities secures accommodation on the most favorable terms.

VALUE OF A HUMAN LIFE

The chief distinction, however, between the fifty-year bond of a railroad and the four-months' note of a merchant lies in the value of individual human life.

There is no value in either except that which is based on human necessities and activities, but the bond is expected to be cared for by the continuance and increase of the general population, while the note is expected to be paid out of the profits often of a single life. A dying man does not borrow that which is to be paid after his death if the money is to be used in active business. No matter how great the security is and how certain the ultimate payment may be, the purchaser of commercial paper relies in nearly every case upon the continuance of the life of the maker of the note for its payment when due. The banker arranges his maturities on this assumption, and his business is adjusted with this in view.

The value of an individual human life is, therefore, an element as clearly defined in the transaction of a bank of discount as the value of real estate in the investments of a savings bank. If a merchant, by his skill, intelligence and experience can make a profit over and above his business and family expenses

of \$10,000 a year, then whatever worth there is in his stock of goods and other resources is increased by the value of his own services—if he lives. This is the best asset which the creditors of an honest man have. His stock may burn and his bills may not be paid, but his talents will still go along with his name—if he lives.

THE SECURITY DESIRED

The applicant for a loan makes a statement. If he owns real estate, its value or the equity in it if it is mortgaged is considered, his stock and the appliances for carrying on his affairs are estimated, and he is required to protect these by fire insurance. But beyond all this, his skill as a buyer and seller, his knowledge of credit and his prudence and integrity are of no less weight in determining the amount which he can borrow and the terms he can secure.

The banker must keep his money invested, for it is by his interest account that he makes his profit. He welcomes the borrower who confers a benefit while he secures a favor—if he lives. The borrowed money is not deposited in a bank at a greater rate of interest than is paid for it. It is used to buy goods which are to be sold at a profit to those who in turn require credit. This gain will depend upon shrewdness in buying, popularity in selling, and judgment in trusting. Experience has taught the banker whom he can trust—if he lives.

The putting together of all the different elements which go to make up the value of a note becomes a matter of instinct to him who has long observed the successes and failures of those engaged in making, and buying and selling the necessities and luxuries of life. By indications which escape the ordinary man, the banker learns who will pay his note—if he lives. But if, when the obligation falls due, the signer is not here to meet it, who will pay? The stock of goods and the book accounts may in time be sufficient to liquidate all indebtedness, but the most important asset, the skill, the ability, the attractive

qualities which have been relied upon to make good the liability when due, is gone. And thus it comes about that the two great interests of banking and life insurance are closely connected and have mutual interests.

GOT HIS CREDIT

At a meeting of the directors of a bank not long ago, the president presented the statement of a merchant who desired a line of credit. He offered a large amount of valuable real estate, subject, however, to a mortgage. He had a stock of modern goods and many excellent book accounts. He showed a considerable margin of resources over liabilities, and yet the statement was not on the whole one which would find favor with a bank where his personal abilities were not known. Each member of the board knew him, and respected his character and his skill. It was shown that he had cleared a handsome profit each year for a long time. There was but one element of weakness in the proposition, but when the president stated that he had \$100,000 of life insurance payable to his estate, that element of weakness vanished, and he was cheerfully given the credit he desired. This is by no means an unusual case, for the question of personal ability and integrity must more and more enter into the matter of credit, and there is only one way of finding protection against the loss which would be occasioned by the termination of a valuable life.

SECURITY BACK OF POLICY

In making our deposits we naturally and properly scan the statement of the bank in which we are planning to place our money without security, except that afforded by its financial strength. In accepting life insurance as part security for loans, it is now and will become still more important for the lender to be able to form an intelligent opinion as to the security which lies back of that policy of life insurance which will form an important part of his protection, and it will therefore scarcely be inopportune to discuss somewhat briefly the question of surplus in life insurance.

The Century Dictionary defines surplus as the "excess beyond what is prescribed or wanted." In financial institutions it is the excess of assets at their real values over obligations. A bank has a surplus if its property exceeds what it owes to its depositors and others, and the amount of its capital stock. A savings bank like those in the Eastern States which have no stock has a surplus if its assets are greater than its deposits and any other debts which it may have. The surplus of an institution like these is easily determined, but the liabilities of an insurance company cannot be stated with perfect accuracy. A fire insurance company has certain policies outstanding, and the risk of loss must be borne so long as they remain in force. The only way to estimate what it will cost the company to carry them for the few years during which they will run is to judge from experience what the losses will probably be. This amount, called the "Reserve," is generally the chief item in the list of liabilities.

"RESERVE"

That liability of a life insurance company which is called the "Reserve" is that amount held at any time, which, if improved at a given rate of interest and added to the premiums to be received, will be sufficient to meet policy obligations as they mature. The length of an individual life is uncertain, but in a considerable number the law of mortality is well known, if the lives belong to a certain class. A mortality table and a rate of interest having been assumed, the present value of the outstanding policies is easy to determine. It is also a simple matter to calculate the premiums which will be received on these policies prior to their maturity, and the difference between the two is the reserve.

In other words, the reserve under any policy is the difference between the present value of the sum insured, and the present value of the future payments which are to be made to secure that sum. If all the payments contemplated have been made, then the liability is simply the present value of the sum insured;

if there are still payments to be made, the reserve is the difference between the two amounts. The mortality table in most common use is called the American Experience Table, and was constructed from an experience in this country. It does not differ materially from tables which have been made from records in other countries, and in a well selected and progressive business the actual death rate will most certainly fall below that indicated by this mortality table.

THE DISTANT FUTURE

The assumed rate of interest was for many years four per cent., but as the country grew older and the supply of money seeking safe investment increased, the rate which could be obtained on securities suitable for trust funds gradually decreased. Life insurance has to do with the distant future, and a policy once issued can never be recalled, and changed, and it may continue for the greater part of a century. Every possibility must be provided for at the outset, and the assumed rate of interest has therefore been reduced to three and one-half per cent. and three per cent.

While the same theoretical standards are applied to companies whose methods and experiences differ widely, yet they are sufficiently safe to serve as a test of solvency in the case of any company managed with a fair degree of intelligence and care. Should it appear that the death rate in any life insurance company runs persistently above the table, then one vital element of its calculations is unsound. On the other hand, if the rate of interest received should prove to be less than that assumed, that element of the liabilities would be deceptive and a dangerous condition would exist.

All these calculations are based upon the receipt of certain arbitrary net premiums, while in practice the actual premiums charged in the policies are considerably larger, a loading being added to provide for expenses, taxes and contingencies. If these necessary outgoes prove to be less than this loading, and if

the net rate of interest received is greater than that assumed, a surplus arises from time to time which in mutual life insurance is distributed to members.

FINANCIAL STRENGTH

The question of financial strength is one of far greater importance in case of a life insurance company than in any other financial institution, because in case of failure, there will certainly be many instances where the holders of policies by reason of impaired health would be unable to procure insurance at any cost. In deciding, therefore, as to the ability of a life insurance company to carry out its contracts for the time being and in the distant future, it will be necessary not only to examine the assets and liabilities with a view to determining whether they are conservatively stated, but also so far as possible to ascertain the mortality and the rate of interest. In a company of considerable size and age, if there is sufficient property conservatively valued and productive, to meet the liabilities fully and safely calculated, the institution will be sound, although as a matter of reputation and to provide for possible temporary fluctuations, it will be clearly desirable to have a margin. In a mutual life insurance company, however, the policyholders are entitled to surplus accumulations apportioned at proper intervals to as great an extent as absolute safety will permit.

While the disclosures of the past year (1905) have wrought havoc with reputations and have brought certain discredit upon individual institutions, the real strength of life insurance has been brought out as it scarcely could have been in any other way. The result of all this will probably be that the entire business will go through a very marked and radical change, and the feature of protection, for which the business exists, will be far more prominent in the future than it has been in the past. To the thoughtful person life insurance has not suffered damage, but rather there has been an education. What the institution has done, and what it can do for the individual

and for the state is now much clearer in the minds of the general public than ever before. The demand for legitimate life insurance will not decrease, but rather increase. Its importance and even necessity in family and business affairs will be far better understood in consequence of the attention which has been given to it. The people will still take life insurance, but they will demand that those companies to which are committed this most important and sacred of all trusts be conducted on sound principles, and with honesty and economy.

FINANCIAL SIDE OF LIFE INSURANCE

(Delivered before General Managers' Association)

THE individual may invest his surplus funds in whatever way may suit his needs or appeal to his judgment. With him there is a wide range, from the bond or stock which, by reason of its superior safety, yields but a small return, to the property which promises a large increase in its market value. In either case the revenue is his and he will enjoy the profit or suffer the loss.

In a very different position are those who have had placed in their charge property belonging to others. Here unusual risks of the loss of capital should be avoided and safety should be considered of much more importance than large returns or the hope of an increase in the principal. Among those whose duty it is to preserve intact the sums which they are called upon to invest are the officers of banks and insurance companies.

Corporations engaged in banking for the purpose of making profits for their stockholders receive the money of their depositors, frequently allowing interest for its use, under an agreement to return it whenever called for. This money must be invested at a rate sufficient to pay interest to depositors if any be allowed, meet expenses and losses, and in addition provide a profit to those who have furnished the capital for the safe transaction of the business.

Savings banks without capital are mutual institutions conducted for the benefit of their depositors who are led to expect such a rate of interest as is compatible with entire safety. In all these cases depositors can call for their money at any time and preparations must be made for satisfying these demands, although experience has shown that apart from a panic induced by fear of loss, no great sums will be required at any one time.

In all these institutions the risk of loss of the principal sum should be guarded against with the greatest care and foresight, but the rate of interest which must be received is not essential to the carrying out of their agreements. The interest allowed to depositors may be reduced at any time when the rate obtainable on safe securities falls.

Insurance companies receive their premiums in advance and must lay aside sufficient amounts to meet the obligations they assume whenever they mature. The contracts undertaken by these corporations, other than those engaged in life insurance, ordinarily run but a limited time, and the premiums are calculated to cover this hazard. The sums necessary to meet the expected claims are required only for these short periods and the interest question is, therefore, not an essential element. In a large business the interest earnings form an important item in the profits of the operations, but they do not enter into the calculation of the premiums or reserves, and hence there is no restriction in this direction in the matter of investments. But while the claims incurred can be foretold with much accuracy ordinarily, there is always a possibility that more than the anticipated amounts will be required by some unexpected and widespread disaster. These companies, therefore, usually invest a large proportion of their resources in securities which can be readily converted into cash.

A life insurance company differs in several very important particulars from these institutions both as to the calculation of its premiums and the investment of the amounts held for the final payment of its policy contracts. At the inception of such a contract the premium which is to be received at stated intervals perhaps for many years is stipulated, and in no way can it be increased. It is of vital importance, therefore, that the basis of this calculation should be sound beyond question. The rate of interest assumed must consequently be somewhat less than will be realized in practice. A part of the premium receipts must be set aside at a rate which will surely be obtained for many years, during which the conditions affecting the earn-

ing power of money may undergo marked changes. The calculation of premiums and reserves makes no provision for losses on investments, or for any interval between the payment of any sum falling due and its reinvestment. The actual rate at which investments are made must, therefore, be somewhat higher than the assumed rate to make good the practical requirements without providing for any surplus for returns to policyholders from this source.

As many of the contracts undertaken by life insurance companies provide for payment at stated times, and as many contain agreements to pay cash values upon surrender, liberal provision should be made to meet any demands which may arise from any cause, and an abundant quantity of convertible securities should be held, although the necessity of providing for large calls for cash is not so great as in the case of a bank.

While the system of surrender values would seem to require liberal provision for obtaining cash, yet the increase in instalment contracts and annuities will serve to modify the possibility of very large demands at unexpected times. But the character of a life insurance company is such that not only probabilities but also even remote possibilities must be taken into consideration. The failure of a bank may entail embarrassment and even suffering, but for a life insurance company to be unable to meet its obligations is a disaster of a vastly more serious character. Distressing as it frequently is to be deprived of money laid aside for a time of need, the loss of a life policy upon which dependents have relied, when it can no longer be replaced, is a far greater calamity.

While the lives which are admitted to membership are sound at the outset, and many of them continue so for long periods, some of them become impaired by sickness or disease and will not be taken by any life insurance company on any terms. The failure of such a company will, therefore, inflict a damage not only to the extent of the actual loss of reserves, but in many cases a far greater one. It is clear, therefore, that the accumulations of a life insurance company are of the most sacred character and that they

should be guarded against loss with the utmost care and skill.

In investing these moneys, therefore, two points must be borne in mind: First, that no possible risk which can be avoided should be incurred, and second, that the rate of interest which will be secured will certainly be somewhat larger than that assumed in calculating the liabilities. In view of the character of these obligations, it is proper and safe to invest a somewhat larger proportion of the total accumulations in these securities which, while good in themselves, bear a higher rate of interest but are not as easily converted into cash as other properties like well-known stocks and bonds.

The investor of life insurance funds must, therefore, have constantly before him two definite necessities—safety and the rate of interest. He must not sacrifice safety for a high rate of interest, nor can he confine himself to those securities which by reason of their availability are sought for by a different class of investors and therefore sell at prices which produce but a small return. He must not only have a thorough knowledge of the laws and history of financial affairs, but he must also understand the nature of the liabilities which are undertaken in policy contracts in general, and those of the particular institution whose funds he is handling.

In view of the sacred character of the funds held by life insurance companies, the state of Connecticut has properly passed laws restricting these investments in certain ways and imposing certain duties upon those having control of them. The laws of this state affecting these matters are as follows:—

Sec. 3562. Investments by life insurance companies. No loan or investment shall be made by a life insurance company of this state without the unanimous approval of its finance or executive committee, or the approval of a majority of the directors of such company present at a meeting of such directors, and the name of every director approving or disapproving any loan or investment so made shall be entered by the secretary on the records of the company.

Sec. 3563. Officers to receive no compensation for negotiating loan. No director or officer of a life insurance company shall receive any money or valuable thing for negotiating, procuring, or recommending any loan from such company, or for selling or aiding in the sale of any stocks or securities to or by such company.

Sec. 3564. Loans of life insurance companies regulated. No loan shall be made of the capital, assets, or income, or any portion thereof, of any life insurance company incorporated by or organized under the laws of this state, unless such loan shall be secured by mortgage of unencumbered real estate worth at least double the amount loaned thereon; or by pledge of bonds or stocks as collateral having a market value at least ten per centum in excess of the amount loaned thereon; or by pledge of United States government bonds or bonds of the state of Connecticut the market value of which shall be equal to the loan; and any such company may make loans on pledge of policies issued by it to an amount not exceeding the net reserve which it maintains upon the policy or policies pledged to secure each such loan.

Sec. 3565. Loans and Investments regulated. No portion of the capital, assets, or income, of any life insurance company of this state shall be used in the purchase of the stocks or bonds of any mining or manufacturing company in any event, nor in the purchase of the stocks or bonds of any other private corporation, upon which last-mentioned stocks a regular dividend shall have been passed, or upon which last-mentioned bonds a regular interest payment shall have been defaulted at any time within three years prior to such investment; and no loan shall be made by any such company upon the security of the stock of any mining company. No loan shall be made by any such company upon the security of the stock of any manufacturing company whereof the market value is less than the par value unless the same shall be accompanied by the individual guaranty of some responsible party, or by other collateral security of equal value to the amount of the sum loaned; and in no case shall

the amount loaned exceed fifty per cent. of the market value of said stock.

Sec. 3566. Premium Notes. This chapter shall not prevent any company from taking premium notes, or giving credit for part of its premiums, in accordance with its usual course of business.

Sec. 3567. Penalty for authorizing illegal investments. Every officer or director of a life insurance company consenting to a loan or investment in wilful violation of any provision of Secs. 3562, 3563, 3564, or 3565 shall be personally liable to the company for any loss which may be sustained by such investment, or loan, to be recovered in an action brought by the insurance commissioner on complaint of any policyholder or stockholder in the company suffering thereby, and shall be fined not more than one thousand dollars and imprisoned not more than five years.

It may now very properly be asked whether this Company conducts its financial department in accordance with these laws and what results have been accomplished.

The largest item of assets is that of mortgages on real estate. The interest receipts on this item, although the rate has been diminishing for many years, have never been as low as 5 per cent. upon the amount outstanding. These loans number about 8,000 and but one foreclosure has been necessary in the past three years.

The real estate owned by the Company, including its Home Office building, amounted on the first of January to about \$640,000. Since then, sales of \$50,000 have been made. A careful appraisal was made within the past year of the various pieces and book values were adjusted accordingly.

A list of stocks and bonds has already been published and it is sufficient to say that the market value placed upon these in the Company's statement exceeds the cost by about \$200,000. Another appraisal of these items exceeds the Company's estimates by more than \$50,000. The liabilities are calculated at different rates of interest, the old business at 4 per cent. and the new at 3 per cent. Taken as a whole, the inter-

est requirement is about 3.75 per cent. The interest receipts of the Company last year amounted to 5 per cent. on its reserve, so that there is a safe margin, in fact over and above that adopted in calculating the liabilities. This is an added source of strength which does not appear in any statement of surplus.

The Company keeps two bank accounts, one in Hartford and one in New York, and interest is received in both on daily balances. Both in safety and productiveness the assets of this Company will compare favorably with those of any other similar institution, and this feature of the business will be more and more appreciated as the public become better and better educated as to what life insurance means.

LETTER TO INQUIRING POLICYHOLDER

THE QUERY

(COPY)

PHOENIX MUTUAL LIFE INSURANCE Co.,
Hartford, Conn.

GENTLEMEN:—I have for some years been paying a considerable sum annually to your Company for premiums on a policy of insurance. So far as I am able to judge from your reports, this policy is well secured, and the cost has been no more than I expected it would be from statements made to me by your agent when he took my application.

In view of the considerable interest, however, which I have in the Company, and of the further fact that in consequence of my large business and increased obligations I am planning to add to my life insurance, I am desirous of learning something about your institution which I cannot find out from the printed reports.

The general subject of life insurance is attracting much attention, and thoughtful people are asking as to the policy of the institutions in which they have taken their insurance or plan to entrust the protection of their families or their creditors. May I ask, therefore, in a general way what are the principles which the managers of your Company have in view in conducting its business?

Very truly yours,

THE ANSWER

Hartford, Conn.,

DEAR SIR:—We beg to acknowledge the receipt of your communication of ——— which has been read with very great interest and satisfaction, for we are glad of every evidence which comes to us that

our members desire information not only as to the condition of the Company, but as to the general principles which the managers of the institution have in view in conducting its business.

At the risk of giving you information as to some things which you know already, or in which you are not interested, we will endeavor to as briefly as possible explain to you the policy of this Company.

The Company was organized and commenced business in 1851 under a perpetual charter granted by the State of Connecticut. Its experience, therefore, covers more than half a century, during which this country has passed through periods of health and sickness and of prosperity and adversity. The Company is, therefore, no longer an experiment, but an established institution with an experience in its various branches which enables it to conduct its business on sound principles.

Its Members are selected from the best class of the residents of the healthful portions of the United States, and are in much the same condition so far as their prospects of longevity are concerned. The Company's business is based upon a table of mortality which shows a death rate considerably higher than that experienced by the Company during the entire period of its history. There is no fear, therefore, that any embarrassment will be felt from any excessive mortality.

The Rates it charges for insurance are somewhat larger than the calculations provide for as probably necessary, but as life insurance is the most sacred of all trusts, so it should be guarded against all possibilities which may arise in the distant future. Surplus receipts are returned to policyholders in various forms, so that they actually receive their insurance at cost.

The Rate of Interest adopted in making its calculations is 3%, but its investments yield a considerably larger percentage than this, which surplus is returned in such ways as may be chosen by its members. The annual statement indicates the class of securities in which the funds of the Company are invested. It may

not be improper to add that an experience of many years has shown that loans on real estate, if honestly and intelligently placed, are among the safest of all investments, and have up to this time yielded a higher rate of interest than almost any other security. It is for this reason that this item is the largest of the Company's assets.

It is not the policy of the managers to secure rapid growth, for this is generally accompanied by a considerable waste, and is not believed to produce the most favorable results either as to the quality or the strength of its membership.

The Company is a purely mutual one, conducted solely for the benefit of its members. Such gains as have been secured in any directions are placed to the credit of its members in an equitable apportionment. Its officers and other employees have no direct or indirect interest in the profits of its business or its investments, except the satisfaction which they feel in the success of their efforts.

It is not practicable in the limits of an ordinary letter to give the detailed history of the Company, or of all the circumstances of its condition and prospects, but it is our pleasure, as it certainly is our duty, to give all proper information to our members or to those who are seeking legitimate insurance.

Our annual report shows the receipts and disbursements for 1904, its assets and liabilities, a list in detail of stocks and bonds, and other information which will enable anyone interested to judge quite accurately of the condition of the institution and the way in which it is performing its duties.

Very truly yours,

JOHN M. HOLCOMBE,
*President Phoenix Mutual
Life Insurance Company*

DETAILS OF A GREAT BUSINESS

(Delivered before the General Managers' Association)

WE are here to discuss some of the details of a great business—one which involves not only our individual interests, but also the welfare of the people and even of the nation itself.

A distinguished writer has said that the family “must be considered as the crucial social unit—the very keystone of society—for it results from happy association of the sexes by which the human species is perpetuated and extended, by which the affections are developed, and by which the interest which compels one unit to protect, preserve and cherish another is fostered. It should be the purpose of society as a whole to protect the sacredness and integrity of that relation. Without the family unit no other social unit would be possible. It brings the individual out of his seclusion into ethical relations, constitutes him a living evolutionary force, lifts him out of intensive selfishness to a more extensive selfishness, for in the family relation he must live for others, although in living for others he may live for his own higher enjoyment. * * * It is the fundamental unit of civilized society.”

It is for the good of the morals of society as well as for every other consideration, that the marriage state should be entered into early in life, especially among the intelligent and moral classes of society, for thus not only will the moral tone of civilization as a whole be maintained and elevated, but thrift and temperance will be increased. There are of course some who by reason of inherited wealth may safely enter into the responsibilities of marriage, but by far the greater part of the people can do so only by assuming risks which should not—or need not—be run. However capable, industrious and thrifty a young man may be, if he is without means marriage brings to

him certain obligations and burdens, which he cannot escape from except through life insurance.

The institution was organized for the purpose of meeting the needs of such. It was brought into existence because civilized society recognized that progress in the right direction could not be made without it. It rests upon the value of a productive life, and protects those who are dependent upon this against disaster. By reason of the ambitions of men and the competition which has arisen, the true purposes of life insurance sometimes have been obscured, but the time seems to be at hand when the original purposes of this institution will be more clearly understood, and public opinion will force the various corporations engaged in this business into a position where they will base their arguments upon the true idea of protection.

Not only is our business inseparably connected with the family life, and in most cases absolutely essential to contentment and happiness, but it also is becoming more and more a vital element in the state or nation. A very large part of the public expenditures is of necessity devoted to the prevention and punishment of crime and caring for those who are unable to take care of themselves. Jails, almshouses and orphan asylums are not filled with those who hold policies of life insurance, or who have been the beneficiaries of this greatest of all philanthropies, and you may be sure that as you educate the public and insure their lives, you are at the same time diminishing the public expenses and elevating the moral tone of the whole people.

It is not possible to conceive of an occupation more elevating than that in which you are engaged. You have constantly to consider and to discuss the best instincts of the human race.

Our business is, therefore, by its nature a sacred trust. There are accumulations of money which must be safely invested at interest to provide for future claims, some of which will not be presented for many years. These funds are guarded by statute as well as by moral laws, and are so peculiarly important in

themselves as to demand the greatest honesty and intelligence in their investment. The money and property of a living man are under his own control, but that fund which he contributes during his lifetime to be cared for by others and to be paid out only after his death is by far the most sacred trust in business life. Therefore, the investment department of a life insurance company is an exceedingly important one, and should be in charge of men of the highest character and ability.

But character is no more important in that department than in the branch of its operations which includes its agency force. If the money which you send to the Home Office for investment to make good the liabilities of the Company should be applied only for the benefit of the policyholders, it certainly is clear that your dealing with the men who furnish this money should be quite as fair and upright. A life insurance company cannot be divided into several parts, some of which should be conducted with scrupulous honesty and others without a due regard to the same principles. Its mathematical, medical and agency departments are no less bound by the rules of good morals than is the investment department.

It will be a good thing for the institution to add to its membership, but no such addition will be of lasting value unless it be made in such a way that the members shall know what they are getting, and, therefore, that they shall be satisfied with their contracts.

HOW SHALL LIFE INSURANCE OCCUPY ITS RIGHTFUL PLACE ?

(Delivered before Boston Life Underwriters' Association)

LET us try to imagine what this world of ours would be without life insurance. For many centuries before the system was ever formed or even thought of, the human race was increasing in numbers, tilling the soil, building houses, constructing ships which led to the discovery and populating of one country after another, erecting splendid cities and forming governments which flourished and decayed, leaving examples of the law that nothing endures unless it has for its foundation virtue, intelligence and industry.

Running through all the early history of the world there were, however, unmistakable evidences that superstition, cruelty and selfishness were the controlling influences in human affairs. To these qualities must be attributed the cheapness at which life was held, the ruthless destruction of fair cities whose buildings cost vast treasure and labor, and the corruption and final downfall of governments which have never been better than the individuals by whom they are made.

Life insurance was for all practical considerations developed in the latter half of the nineteenth century. Long before that it had existed in one shape or another, and had even been reduced to a practical and scientific basis, but it had not become a great force in the sum total of human affairs. It was during this same fifty years that the civilized world made greater progress than ever before and very likely greater than will ever again be made in any other half century. There came during that time a more thorough investigation of the world and its dwellers than ever before. The physical and mental qualities of men and women, the history of governments, the relations between different peoples

and the effects of climates, were all subjects of examination, thought and discussion. All things were considered more broadly, and thoughtful people realized more clearly that the interest of the individual must often give way to that of the community. Human slavery was recognized as an offense against all right principles, the value of life was more and more realized and acknowledged in efforts to substitute arbitration for war, and to lengthen and thus increase the lives of the people by greater attention to methods of living.

What part life insurance played in this tremendous growth and development, it would be difficult to estimate and impossible to prove. No doubt, the growth of the institution has been very largely due to advance in intelligence and to the result of thought, and on the other hand, it is equally clear that the business has had a very marked influence in the progress of the best qualities of civilization. Life insurance is a business enterprise. It is not philanthropy, but it appeals more than any other commercial institution to the best qualities of human nature. There are certain records which we can study to advantage in this connection. The aggregate amount of money which has been paid to life insurance corporations and associations cannot be even approximately stated, but we have records which indicate the great place that this business has come to occupy. In a period of thirty years from 1877, twenty-eight companies of the United States received in premiums, \$4,888,000,000, and during the same time they paid to their policyholders, \$3,094,000,000, and had at the end of this period, property to provide for the payment of outstanding policy obligations amounting to \$2,453,000,000. While these figures are very impressive, they form but a small portion of the total amount paid to life insurance corporations and associations in various countries since the business was first inaugurated.

Where have these premiums come from, for what were they paid, and what has become of them?

It may fairly be answered that the greater part represented amounts saved by those in moderate

circumstances and parted with for the protection of dependents. Had they not been used in this way, it is likely that much of this great sum would have been wasted or spent to the injury of the health and morals of those who earned it. It represented toil and an acknowledgment of the obligations of those who are strong to those who are weak. The amounts disbursed saved many helpless ones from want, protected many from temptation and aided others in innumerable ways when no other help could have been obtained.

The accumulations of those companies in all these years have been invested in various ways; have been used to cultivate farms, to build cities, railroads, and in general to develop the country, and in many cases to relieve the necessities of those policyholders who without the security of their insurances could not have obtained money at times when it was greatly needed.

But beyond all this, the sentiment which prompted these payments should be considered as an element in the world's progress. The man who pays a life insurance premium for the purpose of protecting those dependent upon him, is a more valuable citizen on account of the thought which has inspired this action. He is better fitted to cast his vote wisely and to occupy public office. His relations with his fellowmen are marked by more lofty impulses; he has overcome a part of the natural selfishness which impedes progress and weakens public stability.

It is not possible to imagine any other kind of a corporation engaged in as useful a business and one as valuable to the cause of civilization as a well managed life insurance company. Not only does it gather the contributions of the many to lighten the disasters of the few, but it relieves the public treasury from a part of the expense entailed by crime, indolence and misfortune, and it makes better citizens. It is reasonable to believe that had there been no life insurance up to the present time, there would now be a far greater number of almshouses and asylums where the unfortunate must be cared for by the public, that crimes of various kinds would be

much more numerous, and therefore the expense of guarding against them would be far greater than it is now.

Let us suppose, if we can, that no life insurance organization had ever before been in operation; that certain men of well known intelligence and integrity had investigated the law of mortality and had formed a corporation to do that which is now being done by each of many companies engaged in this business. Having thoroughly investigated the death rate among different classes of people, and in different localities, it is assumed that suitable rates have been fixed, and the company has been organized and equipped. However attractive this scheme might be to thoughtful people, it has been realized that to conduct an equitable and safe business of any proportions, it is necessary to employ agents, not only to explain the system to those near the home office as well as to others living at distant points, but also to guard the company against the danger of admitting to membership those whose prospects of longevity are less than the classes from whose records the rates were derived. Reliable averages and reasonable expenses can only be secured by considerable business, and the steady progress which is desirable can best be obtained by drawing members from different localities.

If we can imagine such a condition of things, then let us try to conjecture how such a plan would appeal to the public! It seems clear that its success would be immediate; that an agent would find ready listeners; that he would be cordially received and that his position would be regarded as dignified and honorable in the highest degree. I do not think, moreover, that we here will differ in the opinion that at a moderate commission solicitors for this institution would be able to make a satisfactory income, and that the character of the business would appeal to men of the highest intelligence and standing. If the reasoning up to this point is sound, and if a good many who have heretofore been engaged in this business have left it for something in which they could more easily make a living, and if there

is difficulty in interesting new men of high character in the personal soliciting of life insurance, then it must be due to one of two causes: either the business has been over done, or else there have been some things in the conduct of life insurance which have created a false impression and prejudice in the minds of the people. It is perfectly safe to say that life insurance has not been overdone; that many times the total amount now in force in all life insurance companies ought to be carried by the people of this country; that many who have no life insurance ought to have some, and that most of those who carry it ought to have more. I am very firmly of the opinion that this whole question in which we are all so deeply interested at this time is narrowed down to one thing: that there have been and still are practices in the conduct of this great and good business which have created prejudices against it, not only in the minds of those who are glad to contemplate the faults of humanity rather than its good qualities, but even in the estimation of those who mean to be fair-minded and just.

Life insurance exists for the purpose of making good or modifying the loss occasioned by the termination of a valuable life. It is true that it is also very properly used as a means of saving and to provide for the needs of old age, yet it is not banking, and no legitimate policy that ever was or will be issued can properly be considered as a pure investment. In the strife caused by the ambition to accumulate assets, the companies have urged the idea that the investment feature should be made the chief argument, and have minimized the insurance element until it has been represented to be of little or no account. No life insurance company ever did or ever will issue an endowment policy which could fairly be claimed to be a good investment, aside from the risk which was carried. No tontine or deferred dividend policy was ever written which could fairly be claimed to be a good financial operation, taking into account not only the mortality risk, but the hazard of losing a part or the whole of what has been paid in. If our business is ever to occupy

that place to which it is entitled, it will be on the merits of life insurance, and the protection it affords in the case of premature death, and not because its policies are taken with the expectation that the money paid in will be returned with a good rate of interest and the life insurance feature thrown in. Many have been led to believe that life insurance is an investment or speculation. When these have been undeceived, it is not surprising that they should come to the conclusion that a part of their money has been wasted in extravagance or has been used for the personal advantage of those who have had the care of it. Nor is it to be wondered at that legislators have believed that corporations engaged in such a business should bear a large part of the expense of running the various governments.

But the people are becoming educated, and are getting a clearer view year by year. In this education lies our future prosperity and our safety, and especially our hope that the burdens of taxation will not only not be increased, but will in time be equalized and lightened.

The question which I believe to be of the greatest importance at this time is, what is legitimate competition? I believe that the great majority of the substantial life insurance companies of this country are in better condition now than they ever were before; that they are better entitled to the confidence of the public, and that the results they can produce will be more satisfactory than they have ever been in the past. It is clear to me that thoughtful men will more and more come to this opinion, but I am equally clear that the business will not reach that standing which it should acquire until those who are seeking to secure applications shall try to build up the public confidence instead of pulling it down, by confining their arguments to the merits of legitimate life insurance, and shall cease to claim, and try to prove that one company is better in every respect than all others; and shall seek new subjects instead of attempting to disturb present relations; and shall refrain from unjustly criticising, even by implication and innuendo, the acts and motives of others. I

do not mean to be understood as objecting to fair comparisons and proper arguments, but the agent who openly claims that his own company is not only in all respects the best, but is practically the one in which everybody should insure, is doing as great a damage to the institution of life insurance as any disclosures of improper conduct have ever inflicted upon it.

WHAT IS NECESSARY FOR THE ORGANIZATION AND SUCCESS OF A NEW LIFE INSURANCE COMPANY ?

(Delivered before the General Managers' Association)

ABILITY, intelligence, experience and honesty are essential to the lasting success of any human enterprise, and it may fairly be said that a life insurance company cannot be started, nor indeed can it be successfully conducted at any stage of its history, without a combination of these qualities. In all other lines of business, transactions cover but a comparatively brief time. A merchant buys at one price with the expectation of selling at a sufficiently higher price to cover his expenses and yield him a profit. A manufacturer gathers material, employs labor and produces that which he expects to dispose of at a gain over and above the total cost of production. His problem is a somewhat more complicated one oftentimes than is that of the merchant, for he has to deal with many uncertain and fluctuating elements; but in either case when the sale is completed the transaction is closed.

A savings bank receives money, agreeing to pay it back at any time it may be called for. A fire insurance company fixes in advance a rate with the expectation that it will be larger than the losses and expenses. If it is found that the general rates are not high enough or that particular risks have increased policies can be canceled at any time and risks terminated; and thus rates can be adjusted according to the conditions which may be found to exist from time to time.

It would be quite possible to liquidate the affairs of any ordinary mercantile concern or financial institution without prejudice to the interests of its creditors, because its debts are definite and easily ascertainable.

But a life insurance company has to do not alone with the present but with the distant future. A rate must be fixed at the outset which it is agreed will be accepted for many years to come, and if for any reason it shall prove insufficient there is no way in which a corporation undertaking such an obligation can save itself from loss. It cannot increase the rate and it cannot cancel the policy, while the insured has the privilege at any time of discontinuing his part of the agreement. This rate is based upon a mortality table and rate of interest, and it must be sufficient to cover policy claims and expenses in the near and distant future. Risks must be selected with such care that the death rate will come within the tabular mortality, and also do equity between the different members. That portion of the premiums not needed for current claims and expenses must be set aside and invested not only safely but at a rate of interest at least as large as that assumed.

It is for these reasons that a life insurance policy differs from all other contracts, and it should be entered into by all parties concerned with a full understanding of its meaning. The company is making promises which should not be undertaken without the most careful study of all the elements involved, and a certainty of being able to promptly meet not alone death claims, but all other obligations of cash surrender values, loans to policyholders, and expenses and burdens of taxation.

All these obligations have been met in past experience and there are now companies of such age and strength that no conceivable fluctuations in human affairs can impair their solidity. These companies all had their beginnings—most of them at a time when conditions were very different from those which prevail today.

It would not be fair to say that no new life insurance company can be started at this time and carried to success, but the obligations of a corporation of this kind are so peculiar and so sacred, that they deserve to be considered with the greatest care.

Practical experience is of the greatest importance in life insurance, and this is required in either

starting a new company or managing an old one. It cannot all be learned from books, although the history of the business is of very great value.

Writing a large number of policies may or may not be advantageous. If they are on good lives and can be secured at an expense both of office and agency forces within reasonable limits, a company may grow and flourish, but it costs at the outset a great deal to establish an office, secure experienced and competent men and build up an agency force. There is no possible way of avoiding this, and while an investment of this kind may in the end prove satisfactory, yet if policy obligations are met fairly, much money will inevitably be sunk before a solid foundation can be constructed.

One of the chief dangers which a new company honestly and intelligently managed will have to meet is not in doing too little business, but in doing too much. Devices for diminishing policy reserves are misleading, and in the highest degree perilous, for sooner or later they must be accounted for on sound and well known scientific principles, and if by any fallacy they are postponed, the chances are that they will never be met. A favorable death rate at the outset is desirable, but it may be very deceptive, for death is sure to come, and the company which has agreed to pay at that time must be prepared for it. It is a very serious matter for the officers of a life insurance company to execute a contract binding the corporation, with which they are at best only temporarily connected, to meet an obligation which may not mature for half a century, and to make such a promise in consideration of the receipt of periodical payments, the sufficiency of which depends upon mortality, interest and expenses which can only be controlled by skill, economy and a volume of business large enough to insure stable averages. The officers of such a company should consider the true meaning of a life insurance policy with the greatest care, and should reflect upon the present situation and that which is likely to exist for many years to come. It is quite as important, too, that a man who is providing for protection for his dependents should

be very sure that the company to which he entrusts what is oftentimes hard-earned money is built upon foundations which cannot be shaken by financial and other disturbances which are sure to come sooner or later. These questions should not be taken lightly, for they involve the most serious of all matters.

It is no more possible to establish a mutual life insurance company for the benefit of its policyholders, or a stock company for the benefit of its stockholders, and to secure immediate profits, than it is to sow a field with wheat and gather the harvest the next day.

Life insurance is too sacred a matter to be trifled with either by those who are establishing a new company or by those who are taking insurance upon their lives. An old company naturally has certain advantages, but it is not good simply because it is old. A big company may produce good results for its stockholders or its policyholders, but it will not do these things simply because it is big. A new company will not fail of success simply because it is new, but it will fail if it makes promises impossible of performance, and departs from those sound principles which are absolutely necessary for success.

AN UNADMITTED BUT REAL ASSET

*(Delivered before the Life Underwriters' Association of
Central Massachusetts)*

THE service which a life insurance company performs is to furnish sound insurance at a reasonable cost. Every policy which is put in force carries with it an immediate pecuniary liability on the part of the Company issuing it. If it is a life insurance policy in its simplest form, and the death risk alone is carried from year to year, the company must have a sufficient amount of money to make sure that such claims as they mature will be paid. If the policy is an ordinary life or endowment, then not only must the current death risk be sure to be met, but a portion of the premiums must be reserved at interest to provide for the time when the annual payments will not be sufficient to meet the current risk, or to establish a fund for the final liquidation of the policy.

Assuming that the premiums charged by a company are sufficient in amount to meet the expenses and the calculated liabilities, two elements are to be considered in estimating financial strength: The assets must bear a rate of interest somewhat higher than the rate assumed in the calculations, and it must be certain that this rate can be maintained during such time as any of the company's obligations may remain in force. It is, therefore, easy to conceive of a company solvent in one sense, but insolvent in another, as, for example, if its assets should be invested in government bonds, and its liabilities calculated at 4% or even 3%. The second element is that of mortality. If this should be favorably compared with the table rates, it would inure to the advantage of the policy holders by reason of savings from vitality, which would add to the company's strength and help the distribution of surplus.

In order to estimate the financial strength of a company, we are in the habit of looking over its

annual statement, scanning the different items of its assets, examining its receipts to learn whether the rate of interest which it is receiving is sufficient, observing its mortality experience and examining its expense account to ascertain whether this is within the margins intended to provide for it. If we find that the assets valued conservatively exceed the liabilities calculated liberally, and we find that the interest account is well above the requirements, the mortality record below the tabular rate and the expenses reasonable, we assume that the company is solvent and strong. Any surplus it may have over and above these requirements adds to the substantial character of the institution.

The assets which we see in the statement consist of mortgage loans, stocks and bonds, loans on security of the company's policies or other collateral, and such other items as go to make up the investments of the institution, and we compare the liabilities with the sum of these, in order to judge of the company's strength.

But in all these statements, there is one item which may be of very great value to policyholders, and which may add to the security of their contracts and returns of surplus quite as much as any of the other tangible assets.

Any life insurance company in good standing, with a well-selected business, and well-invested funds of sufficient amount to cover its liabilities, can stop issuing policies and by prudent and economical management can carry its risks to maturity and pay its last claim out of its funds, but it is not this kind of a company which can furnish the most satisfactory results. New business is not only desirable, but it is essential to the most favorable experience, provided it is well selected, honestly placed so that it shall be persistent, and the members shall have confidence and satisfaction in their contracts, and provided it shall be procured at a reasonable cost. How can this be done? The time has not yet arrived when the general public sufficiently understands the subject of life insurance to make it a common thing for a man volun-



tarily to approach a life insurance company for a policy upon his life. Such is the nature of the business that he must be educated as to what the institution can do for him, and then persuaded into doing that which he ought to do voluntarily.

A company, therefore, to perform its best service must have a corps of agents who shall go about, and having educated the public as to the functions of life insurance, explain to them not only what the institution can do for them, but what his own particular company can perform. His work is one of education, and is one in which while he is earning his own living he is doing a service to his fellowmen. And he is not only doing this, but he is also benefiting the policyholders of his own company by adding to their number, broadening the basis of their business, and aiding in that growth which will bring better returns to all concerned. The best results are produced by a corps of agents who are not only harmonious among themselves, but between whom and the home office there exist the most cordial feelings of confidence and friendship. A corps of this kind is necessarily a matter of growth. It takes years and the expenditure of much money to establish a thoroughly efficient and harmonious body of agents, but when this is done, the result will justify the time, labor and expense.

My belief, therefore, is that to the ordinary assets of a life insurance company, there may be added the value of its agency force, and that so far as the efficiency of the company is concerned, and the results which it can give to its policyholders, this is as truly an asset as any other item which is set forth in the printed statements.

THE PHOENIX MUTUAL LIFE INSURANCE COMPANY

ITS CONDITION AND SOME THOUGHTS ON COMPETITION

(Delivered before General Managers' Association)

THE condition of a life insurance company is not fully disclosed by the figures of its annual statement. These are important in indicating certain things, but they do not tell the whole story. It is not possible even to draw comparisons between different companies by inspection of the items which are set forth in any reports. Assets should certainly be valued on a conservative basis, but they must also be invested not only safely but so as to produce a rate of interest in excess of that assumed in the calculation of premiums and reserves. The property of a company might consist entirely of government bonds, in which case, if the calculations of the liabilities were based on four per cent. or even three per cent., such a company would be practically insolvent, because its interest account would not keep pace with the interest requirements of the liabilities. Even these essential points are not altogether shown in annual statements, because in some cases gross interest receipts are included in revenue account and expenses on the other side, and in other companies the net receipts only are shown.

But having obtained a comprehensive and accurate idea of the assets, the condition of the company is then only partly shown, for in life insurance the liabilities are unlike those of any other class of corporations. The obligations of such an institution rest upon two assumptions—interest and mortality. If the earning power of the assets is less than the interest assumption, the company is in danger. If the mortality exceeds the table rate, another danger ap-

pears. And these essential points cannot be learned from an annual report. It is plain that a healthy condition requires an interest income in excess of the rate assumed in the computation of liabilities, and that the actual mortality should be less than that shown by the table used in the mathematical department of the company.

But even this is not all. The ability of the institution to carry out its contracts cannot be altogether understood unless the nature of its policy contracts shall be thoroughly analyzed.

Nor is this all. It is of the greatest importance that the membership of a truly mutual company should be composed of satisfied policyholders who value life insurance for what it can do, and who believe in their company and will thus continue to contribute to its income and resources. These members must be so selected that substantial equity shall be done, to the end that no one member or class shall receive protection at a less cost than prevails in the whole body.

The practices of the company not only in allotting surplus earnings, but especially in the payment of maturing claims, is of very great importance in considering the real condition of a life insurance company. If it shall appear that claims are met promptly, and in a liberal spirit, that no unnecessary and technical requirements shall be made, and especially that none shall be resisted excepting for good and sufficient reasons, then this sentiment will soon become known to members and will result not only in satisfaction and profit, but in additions to the number of policyholders. It is universally acknowledged that reasonable growth in all directions is important. While growth in a life insurance company of moderate size is desirable, its quality is extremely important, and this is not indicated in an annual statement. New members must in respect to the risks assumed be on a practical equality with old members and the cost of placing new policies on the books must not in the end be so great as to prejudice the rights of those who have already contributed toward the building up of the institution. A state-

ment may appear to show that premiums have been secured at an unreasonable cost, and yet this may be only appearance, for a part of the money spent may be invested in the building up of an agency plant which in the end will prove to be economical. It is much more important that growth shall be steady year by year, than that it should at any particular time show a violent expansion.

NOT THE WHOLE STORY.

The percentage of dividends to premium receipts does not necessarily tell the whole story of the value which policyholders receive for their premiums. Liberal features often cost money and are worth what they cost, and policyholders can, therefore, better afford to pay more for certain kinds of policies than they can for those which in the end cost them directly or indirectly something which cannot be told in an annual report.

There are a number of assets which are of very great value but which cannot be estimated in dollars. A reputation for fair dealing is better than a certain amount of railroad bonds without it. A loyal and faithful and intelligent corps of agents is as real a property as mortgage loans, but there is no way of expressing its worth in money. A home office in which there is an harmonious, fixed, and unalterable sentiment in favor of conservatism, equity and fairness is worth to members as much as a bank deposit.

There are also certain liabilities which cannot be made public, and among these are sentiments of distrust among policyholders and irritation among agents which result in lawsuits, loss of business, selection against the company in the ceasing of policies and many other things which in the end cost money.

Every intelligent man who takes a policy on his life for the protection of dependents, realizing that it may run for many years, should inform himself as to the real condition of the company assuming this risk, for he will of course desire that his insurance shall be absolutely safe, that it shall be carried at a reasonable cost and that when it matures it shall be

paid in a spirit of liberality. He will want to be sure that his family shall not be confronted with technical requirements, and be obliged to resort to lawyers and courts to secure that which he has provided for them by his own economy and unselfishness. It is essential, therefore, that you should know the true condition of your company in order that you may answer all proper questions, and be able to inform your agents of certain facts without which they cannot effectively prosecute their business.

NO FLAW.

There is no flaw in the financial condition of your company. Its assets are sound, well invested, productive, and valued on such conservative lines that no financial disturbances will affect them. Its liabilities are liberally computed, and nothing in the way of obligations is forgotten or overlooked. The rate of interest assumed in the calculation of its policy contracts is so safe that nothing in the future can affect it adversely. The rate which the reserves earn is such as to make certain that the contracts will be provided for and surplus returns will be made to policyholders for all time. Its members have been selected with such care that the mortality has been and will be within the requirements. No foreign agencies have ever been established, with possibilities of a high mortality and low rate of interest, and other dangers. Its policyholders have been chosen from the class whose record is thoroughly well known. As a result of all this its claims are fair and honest, and are met promptly and fully. With more than 50,000 policyholders scattered over the country, there is no suit pending to collect a disputed claim.

No company can have such a record as this without a faithful, honest and loyal field force, for members of an insurance company are, always have been and always will be, gathered through the efforts of agents, and the quality and results will depend very largely on the character of the men who have taken the applications.

The policy contracts have been framed and the

rates have been calculated with two objects in view. First, to make sure that the premiums charged shall be sufficient under any and all circumstances, not only this year, but for all future time, to enable the institution to carry out these most sacred obligations promptly and fully; and secondly, to grant policyholders all the protection, rights and privileges consistent with safety and fair dealing.

Understanding, therefore, the basis upon which the whole structure of life insurance rests—that of protection against the loss of a valuable life—and the condition of your company and its ability to give this protection safely and in any form which can be legitimately desired, your path is plain and straight, and leads to the home office, where policies must be written, premiums received and invested and claims paid.

Life insurance is not a speculation, nor is it an investment, although it may be the means of accumulating. It exists for the purpose of distributing losses, of continuing the value of human efforts after the death of the producer. Having convinced your friend—for the sentiment of friendship is a legitimate part of this business—that he should provide for the possible cutting off of his earnings, you can satisfy him that you can give him this protection in any form which may suit his particular need, and then you can write his application.

But you may say that while you are traveling this straight path and the home office is just before you, the agent of some other company steps out of the bushes and engages your friend in a discussion, in the hope that he can lead him by some other path to some other home office. Competition is inevitable, and if it is conducted on fair lines it helps the business. It educates the people as to what life insurance has done and what it can do. It informs them how protection can be carried in different ways.

COMPETITION.

Competition is very largely responsible for the carrying of the protection of life insurance to millions of families, and if the millions of people who are now

uninsured but who need to have protection shall be induced to take it, it will be very greatly through the education which will be carried to them by competition.

But competition is of two different kinds: That which seeks to secure business by legitimate methods, and that which injures reputations and restricts the spread of true life insurance by deception and detraction.

The class of business most satisfactory to a company and most profitable to an agent is that which is secured by depicting the real quality of life insurance, by showing that your own company is strong, founded on correct principles, and is intelligently and honestly managed, for members who are secured in this way will be satisfied and will pay their premiums as the years go by. It is proper and necessary that you should believe and argue that there is no better company than your own, taking into consideration all the elements which go to make up a good mutual life insurance company, but it should also be remembered that there are other good companies—companies which will furnish satisfactory insurance at reasonable rates. You may educate a man up to the point where he is ready to take insurance, and some other agent may step in and insure him. This is oftentimes depressing and annoying, but it is best to realize that you yourself may insure a man who has been educated by others.

Your own company restricts its business to what it regards as the more healthful portions of the United States. It is proper for you to urge that this policy will produce the best possible results. Your company pursues a definite theory as to its investments. It is just that you should claim and prove that this theory is better than any other; but to unjustly criticise another reputable company is only to injure the public estimation of life insurance and damage your own future prospects.

A very large part of the public prejudice against life insurance, of the unjust and damaging legislation which has been proposed, has come from the methods adopted by those field workers who have not only

led people to expect the impossible, but who have cast discredit upon well-managed and useful institutions.

You may say that this is all very well in theory, and can be easily talked about at the home office, but that the competitor who steps into the path may be armed not only with arguments, but with a club, with which he proposes to knock you down. Just here is where I cannot offer advice. No human being is perfect, and no corporation of which I have ever had any knowledge is free from criticism. Fifty years is a long period and the chances of mistakes are many. No life insurance managers who have accomplished anything ever lived or will live, who have avoided all errors. To dig into the past for the purpose of finding mistakes which have been cured or outlived is not only cowardly, but is also foolish. If your competitor becomes an adversary and seeks to destroy you by violence, you must protect yourself with such weapons as you have, so long as you rely upon the truth, but life insurance will not cover its legitimate field until every department at the home office and in the field shall be conducted on principles of truth and mutual forbearance.

MALADY ANALYZED
*THE WHOLE SYSTEM OF LIFE INSURANCE
SHOULD BE IN PERFECT CONDITION*

(Delivered before Chicago Life Underwriters' Association)

I THANK you, Mr. President, and gentlemen, for your cordial greeting. It is a pleasure for me to be with life insurance people. I hope I may be pardoned for a personal word. I have been in the life insurance business longer than most of you, I am sure, having been connected with one company for more than thirty years. I have had the opportunity of observing many things. I am something more, however, I hope and believe, than a mere official of one life insurance company—I am a life insurance man; and, while my own company is entitled to my best services, I believe that my services can be made best by doing what I can for the best good of the general business of life insurance, for I believe that what is good for the public is good for life insurance, and what is good for life insurance is good for my company and for all connected with it.

I have been greatly interested in some of the things I have heard here tonight. I have been interested in the report of your executive committee. I think that a grave responsibility rests upon us at this time. I wish that I could say to you that life insurance is all that it should be, that its practice has been and is all that it ought to be, that the public have confidence in it, and that all you have to do is to present your case to the public and that they will accept what you say. I wish I could say this, but I cannot; but I am glad to say that in my judgment life insurance has yet to see its best days. I believe that a great responsibility, as I have said, rests upon you and upon all of us, and especially in this great city are your respon-

sibilities great. This city is one of the wonders of the world; it has taken its place at the head of all the communities of the world, and it seems to me that it is the proper place to inaugurate a movement which shall in the end make life insurance what it ought to be, and bring to the public a realizing sense of what it is and what true life insurance can do. Life insurance is not everything today that it might be. I hope and believe that we have it in our power to make it so. Not in a day, not in a year, but we must lay our plans, we must look into the distant future, and we must steer our course in that way that we feel sure that we shall come finally to that place where the public will have confidence in us, in our business, in our companies because they have found that we have told them the truth.

When one is ill he seeks for the cause of his malady in order to apply such remedy as will most surely and speedily restore him to health. He does not ask the advice of his lawyer, no matter how learned he may be in the theory and practice of the law. He does not seek the opinion of his minister as to his physical condition, however eloquent and convincing may be the sermons of the preacher. He does not demand the assistance of the member of the Legislature from his district to secure the passage of an act to regulate the working of his various organs. He lays his entire case before his physician, who has spent a lifetime in studying the intricacies of the human machine, and in investigating the methods which may best be employed in regulating any of the parts which may be out of order. A general examination will show the particular organs affected. Many of the vast number of parts which make up the whole will be found in perfect health, but even these will sooner or later suffer, unless the disease which affects the general system shall be removed. A condition of health in the entire body is essential to the proper working of each member. A constitution which is sound may be attacked by a fatal disease or a malady caused by contagion or infection, but it may also be deranged by an unusual strain of some part. It may be temporarily disturbed

by over-eating or drinking, or by exposure to outside influences of a harmful nature. Whatever the cause may be, an expert will understand its condition and attack the cause of the trouble. Proper remedies, whether they shall be by taking medicines, or by dieting, or by any course of living, cannot be determined until the reason for the condition shall be known, and then the remedies will depend upon many considerations. The mind, the body, the occupation, surroundings—all must be studied.

Life insurance is suffering from illness. Its constitution is sound, many of the parts which go to make up the whole are in healthy condition thus far, although they may show the scars of ancient wounds. But it is a shortsighted and narrow view to take, that any one member of this great institution can flourish in the best sense of the word, unless the whole system shall be in a condition of general health.

The man who is suffering from any form of temporary illness will be pretty sure to get unsolicited advice from his neighbors and associates. They will tell him off-hand what is the matter with him and what will cure him. And so there have been many who have expressed opinions as to the cause of the disorder in the life insurance system and have prescribed remedies.

If we go back to the beginnings, we shall find that the system was originally based on perfectly sound reasoning, and that it has grown in size and strength through many generations. It flourished so long as it was confined to those purposes for which it was planned, but ambition took hold upon some of its managers, and schemes were devised for diverting it from its legitimate purpose.

I am not one of those who believe that the deferred dividend is necessarily and essentially wrong, and I am quite willing to admit that the protection of life insurance has been carried into many families which would not have had it but for this temptation. But all the arguments that have been made to magnify the value of a life insurance policy as an investment or speculation, and minimize the importance of it as

protection, have done much to cause the disorder which now afflicts the entire body.

Life insurance exists for the purpose of repairing the loss occasioned by the premature destruction of a life which has a pecuniary value. It may incidentally be the means of accumulating money which otherwise might be wasted or lost, but a life insurance company is not a savings bank and is not an investment bureau. It cannot take a man's money and return it to him with the current rate of interest added, and throw in the life insurance beside. It never could do this, and that portion of the business which was done on any such representation was like food which cannot be digested. Some troubles can be cured at once, but some which have been long coming on it will take long to eradicate.

The malady which affects life insurance can be traced to several causes—mismanagement at the home office and false methods in the field. Laws will not cure human diseases, nor will they alone effect a healthy and lasting recovery in corporations which are suffering from illness.

I think it is safe to say that the disease, so far as it relates to the home office managements, has been treated in such a way as to give hope of an early recovery. This is not due so much to legislation as it is to a much more powerful and far-reaching medicine, and that is publicity.

It seems to me that you and your associates now have it in your power, not perhaps to effect a complete cure in a month or in a year, but to so conduct your business that many of the difficulties which afflict the system will gradually disappear.

A life insurance company can have but one object, and that is to furnish sound protection at a reasonable cost; and your sole purpose must be to explain not that this protection can be assured at less than cost, but that the price is one which the insured can afford to pay for what he gets. Impossible estimates, unfair competition and abuse have no place in your work, if you wish to see the business placed upon a basis which will yield you satisfactory returns in the future.

The man who is induced to take a policy because he thinks he will personally make a profit in the transaction, the person who is hesitating between two reputable companies and finally takes one because he is told that the other is not worthy of his confidence, the one who accepts a policy contract because he can get it for less than it is worth—these are undesirable policyholders both from the standpoint of the agency and the company, for they will not continue to pay their premiums and will join the multitude of those who will have good reasons for saying that the system of life insurance has flaws which its own management will not rectify, and which, therefore, the Legislature must control.

The policyholders of a company must of necessity bear the expense of maintaining the home office, and with the constantly increasing requirements of analyzing the operations in all their vast details, this cost will not decrease with a falling off of new business or even a decrease of outstanding insurance. To maintain a condition of health, therefore, and to attain the most favorable results, a steady addition of well selected new lives is most desirable—always provided that they are informed in advance of the true nature of their contracts and the real condition and reasonable prospects of their company.

And what is true in this respect of the company is equally true of each of its agencies. Your income and what should be quite as important, your happiness and contentment will depend upon the satisfaction of your policyholders, every one of whom should be helpful to you. If they have been honestly insured not only will they continue to pay premiums, but many will take additional insurance, and by their commendations will make it easy to add to your members. Unfair attacks in the newspapers and where men gather to exchange opinions, prejudice against our business, hostile legislation, do not emanate from those who have been insured fairly and who are getting a fair return for the premiums they are paying. Your policyholders should be your friends and you may be sure that such a condition is worth more to you in money even than high commissions and bonuses.

But the manager of some company may argue that the general condition of life insurance does not concern him because his own company is strong, and healthy, and growing sufficiently in membership and resources. He may forget past illnesses which have been cured and have left no trace, for no human being and no corporation can show a perfect life. He may feel sufficient in his own strength. But he and you if you represent his company will surely be affected by any disease which seriously impairs the health of the great system of life insurance.

The public and legislators do not spend their time in contemplating the virtues of corporations. They form opinions and make laws from hostile investigations of a system as a whole. You and I know that our business has saved thousands from lives of poverty and crime, that it has spared the pockets of many—who never contributed to it a dollar—from taxes for almshouses and prisons and criminal courts, that it has made it possible for the poor to conscientiously marry and that it has elevated the moral tone of the civilized world. We know all this and more; but when laws have been proposed, calculated to curtail the spread of this protection among those who need it most, and even to finally destroy the whole fabric, has there been a public protest against such a mockery of the liberty for which our fathers fought? Have legislative committees sought for evidence of the good which life insurance has done, and tried to devise laws which should eliminate its evils without checking its benefits? I think not. And contemplating all this, can any one of the great army who are in their various capacities engaged in this business say that he is not concerned in the welfare of the whole system?

But a consideration of the obstacles in our path will not avail unless we can find means for removing them. A pathetic figure in mythology is the one who was forever rolling up hill a stone which always rolled back. But we are not condemned to such a hopeless task. The rocks and boulders which have of late seemed to obstruct the road, until many have sought other avenues, have only been dislodged by rains or

earthquakes, and they can be cleared away if we see them distinctly and patiently remove them one by one.

I believe in life insurance, and I believe that the time will come when the intelligent, right-minded and thoughtful public will appreciate it at its true value. Even when that time comes they will not voluntarily apply for insurance and bear the expense of proving from near and distant points that they are suitable candidates for membership. The agent always has been and always will be an absolutely necessary part of the system if its benefits are to be generally spread abroad, and I believe that his labors will be far better rewarded in the future than they ever have been in the past. Do not think that I am looking for the early arrival of the millennium. When that happy time comes the agent will not be needed, for every insurable and valuable life will seek such an amount of life insurance as will protect its dependents and even the public against loss.

Human selfishness and procrastination will remain even with an appreciation of all that life insurance means to the individual and the public. And therefore the agent must urge his plea and write the application and bring the doctor. But he will not need to enter into elaborate arguments to show that life insurance is as legitimate a business as fire insurance, or as banking, and is conducted with as much intelligence, economy and honesty as either.

If I am right then the question which presents itself to us is how can we hasten the arrival of this time.

We can base our arguments upon the value of human life as shown by the experiences of many generations, upon the duty which everyone owes to others, upon the stability of our business if properly conducted, as shown by many examples. We shall show our ability to give sure protection, but we shall not feed the flame of criticism by claiming virtue for ourselves and denying it to others. "He that is without sin among you let him first cast a stone." Is there any company of which it can be said that it has been and is without a stain? Is there any representative of any company of whom it can be asserted that he

is without blemish? There are frauds among farmers, in banking, in the law, in the pulpit, in life insurance. It is proper to expose them and to warn the unwary against them.

It is best that a state government should by laws protect its citizens not only against violence, but also against adulteration in food, medicine, life insurance. There are good laws and bad laws; those which protect the people in their just rights, and those which interfere with the privileges which belong to a free nation and which instill into the public mind the idea that the dishonest can be made honest and the foolish wise by acts of the Legislature. Such are demoralizing and weakening to the independence of a country. And yet general laws come from a general even though mistaken demand, and if time shows that they are wrong they will be remedied.

It has been shown that there have been serious defects not in our business, but in the conduct of it. We shall not profit by claiming that prejudice and resulting distrust have no foundation. They are based on facts but like many waves of criticism and theoretical reform, they have gone too far. We have been charged with faults which we have never committed. Purposes have been attributed to us which we have never entertained. Men posing as reformers have sought to gain public applause and political advantage by trying to convict us of ignorance and a disregard of our trust. It is for us to show that our experience and our labors are devoted to the honest prosecution of the best business known to the commercial world.

True life insurance is not overdone. The aggregate value of the insurable lives in this country, lives upon whom others have a right to depend, is many times greater than all the insurance which is now or ever has been carried on them.

It is for us to so conduct our affairs at the home office and in the field that we shall be recognized as the friends of the people and not their enemies. Then will our legitimate field be opened to us and the public and their representatives in the governments will realize that we are performing a service which is entitled to their confidence and support.

THE PHOENIX MUTUAL LIFE INSURANCE COMPANY

An Analysis of Its Financial Condition and Theory of Its Management, Plans and Future Prospects

(Delivered before the General Managers' Association)

IT behooves the prudent man to carefully consider and fully understand the real condition of the company to which he not only entrusts his money, but, what is vastly more important, the protection of dependents.

Financial strength in a life insurance company is more important to its members than is that of any other institution handling other people's money to those who patronize it. A bank exists for the accommodation of its customers in making collections, receiving their money and paying it to them whenever they may need it. Its failure may be an unpleasant incident, and even in some cases distressing, but the amount of the individual loss is definite and the loser may be able to make it up. In case of the failure of a life insurance company, however, something more is involved than the mere loss of money, for while some of its policyholders may be able to get insurance in other companies, in many cases they cannot do this, and the protection which a policy represents will then be lost beyond the power of recovery.

The real strength of a life insurance company cannot be fully measured by an inspection of the assets and liabilities appearing in an ordinary statement. There are elements which do not appear on the surface quite as important as the character of its investments. Its liabilities are of a peculiar character, inasmuch as the obligations assumed under its policies may mature at any time, or may not be presented for many years.

We can conceive of a life insurance company all of whose business might consist of paid-up insurance. Such a company would have no premium income, and would be obliged to depend upon its interest account and the sale of its securities for the payment of its claims and expenses. It is true that such a company might be perfectly strong and serve its members efficiently, but a mere inspection of assets and liabilities would not disclose its actual strength.

Policy obligations are calculated upon a mortality table and an assumed rate of interest, and unless the actual experience shows a death rate within that assumed, and interest receipts enough in excess of the rate used in figuring the liabilities to pay expenses, such company would be as truly insolvent as if the value of its assets were less than the liabilities.

On the other hand, a company might have a large premium income, but unless it had reserved from this a sufficient amount to meet its future obligations, and unless its actual premiums were sufficient to cover all the future liabilities, such a company might not be able to pay its final claims.

The chief item of the liabilities of a life insurance company is called the "Reserve", which is the amount retained and set aside from past premiums to meet future claims. Technically this reserve is the difference between the present value of the sum insured and the present value of the future premiums which will be required to secure that sum. In a single-premium or paid-up policy, the reserve is the present value of the sum insured. If it is a single-premium or paid-up life policy, and the insured is 50 years old, the reserve is \$555; if it is an annual life policy which has been in force ten years, and the insured is now 50, the reserve is \$555 less the future premiums which it is expected will be received, amounting to \$378, leaving \$177 as the net liability or reserve. These calculations are all on what are called net premiums, but the actual premiums charged are considerably larger than the net to provide for expenses and contingencies of all kinds. Some of the policies now being issued will still be in

force fifty or even seventy-five years hence, and the premiums, which cannot be increased, must be sufficient for all future variations of interest and fluctuations of mortality. Under existing conditions, these premiums are somewhat larger than present necessities require, but the members of a mutual life insurance company receive their protection at cost, because surplus premiums and earnings are distributed to them in the shape of dividends.

Measured by any of these tests, what is the condition of the Phoenix Mutual Life Insurance Company? Are its assets sufficient to meet its liabilities under any and all circumstances, present or future? Are its policy contracts and premiums liberal and sure for this year and half a century hence?

These are questions which are of the utmost importance to present members, and to those who are considering whether they need and should have the protection afforded by a life insurance company.

The premium income of this Company for the past twelve months was something more than \$4,000,000. The actual net premiums required to carry its policies under the mortality tables and rates of interest adopted in its calculations was \$3,240,000. The surplus of actual over net premiums, therefore, was \$760,000. Had the mortality of the Company been the full table rate, there would have been this margin to provide for expenses, taxes and all other contingencies. As a matter of fact, however, the actual mortality was 70 per cent. of the table rate, and the death rate has not varied widely in the past ten years, nor is it likely to greatly increase in the future, certainly so long as a fair volume of new business is secured.

The amount of interest required to maintain the reserve in the year 1907 was \$823,000 and the actual interest receipts amounted to \$1,129,000. There is, therefore, an excess on this score of \$306,000 to provide for contingencies and to contribute to the payment of dividends.

Bearing in mind the principles adopted in calculating the liabilities, let us now turn to the assets to consider whether they are sound and sufficient to meet the requirements.

The real estate now owned by the Company was appraised by the Connecticut insurance commissioner at the time of his recent examination at an amount, as a whole, about \$85,000 more than the book valuation. There does not, therefore, seem to be any reason for providing for a loss on this account. The mortgage loans, some eight thousand in number, are well secured, but one foreclosure having been necessary in the past four years. No depreciation account is needed on this score. Policy loans are abundantly secured and will not decline.

In the list of assets, therefore, there is but one item which is liable to depreciation, and that is the stocks and bonds. At the close of last year the market values of those securities were lower than they ever were before and probably less than they ever will be again—certainly much below what they are today. This depreciation was met by placing in the liabilities a fluctuation fund sufficient to make good even this unusual decline. It is quite evident, therefore, that providing for all these liabilities and contingencies, the Company is not only in a thoroughly sound and healthy condition at this time, but that its premiums and interest will be sufficient to meet all possible future demands or the most violent fluctuations in the financial world.

The next statement will be made at the close of the present year, and at that time the apportionment of dividends for the coming year will be made. In addition to the fluctuation and contingency reserves in the present statement, therefore, the gains and earnings of the year will be available for all possibilities and for the payment of dividends. A healthier condition can scarcely be imagined.

We have now a mutual life insurance company whose assets are sound and producing a higher rate of interest than the requirements of the reserve, whose mortality is steadily less than that provided for by the tables, whose premium income is received from a satisfied body of members, whose earnings are healthy, and whose general condition, therefore, is much stronger than the business statement indicates.

What now is the proper course to be pursued? We here are policyholders, and it will be useful for us to consider general questions as policyholders and not as those who derive their incomes from the institution. If the theories upon which the business is based are sound, and if the condition of affairs is healthy, then the Company can cease issuing new policies, gradually liquidate, and finally pay out its last claim in full. I have no doubt that this could be done, but inasmuch as policyholders are mortal, and certain expenses would of necessity go on, the death rate would inevitably increase and gradually approach the table rate, the expenses of administration would show an increasing percentage to resources, and consequently the cost of carrying insurance to policyholders would increase by the necessity of diminishing dividends. If, on the other hand, new members of the same class as those who now are insured can be added, and steady and reasonable growth can be secured, the mortality will continue favorable and the expense will show a decrease.

It is of course possible that this increase might be made upon terms which would prejudice old policyholders, for new business has been and probably is now being done by some companies at a cost which is greater than any value it can be to present members. If, however, part of this cost can be fairly said to be for the purpose of building up an agency force which will in the future produce steady and healthy results, that portion is not strictly an expense of new business, but rather in the nature of an investment.

Under the present conditions this Company is acquiring new business on terms which will be not only not prejudicial to old members but directly for their benefit. We, then, as policyholders, have a direct pecuniary interest in the growth of the Company, and this growth cannot be obtained excepting through agents, and no growth can be healthy and permanently satisfactory unless these agents shall be faithful both to their policyholders and to their company. Each agent desires to increase his premium income, and therefore his compensation, and

if this shall be accomplished at a reasonable expense, he is continually strengthening the Company as a whole. Each officer and employee of the Company desires the same result, for upon its success must depend his own position and compensation. As policyholders, therefore, as officers, and as agents, we have a common interest—to produce substantial growth that we may be able to carry insurance for our members at a decreasing cost, and with an increasing income to agents. All this can best be accomplished by the most cordial harmony between policyholders, agents and the Home Office, which I believe exists to a greater degree in this Company than in any other.

HOW FAR SHOULD THE OPERATIONS OF A LIFE INSURANCE COMPANY BE REGULATED BY LAW ?

(Delivered before the Economic Club of Boston)

A MUTUAL life insurance company is a combination of persons who agree among themselves to make good the losses occasioned by the termination of valuable lives among their number. It exists by virtue of an act of incorporation granted by some government, which makes it possible to transact business under the laws and to do those things which are necessary to carry out the purposes for which it is organized. Such an institution does not ask or receive any favors or special privileges from the public. It simply secures the right to carry its protection to those who wish it under conditions and in ways which are set forth in its charter. It does not take or use property belonging to the public, nor is the protection or endorsement of the state employed for personal and private gain.

Every productive life has a value not only to those who are dependent upon it, but also to the state, in accordance with the length of time during which it will retain its earning power, and the termination of such a life inflicts a loss upon the total wealth of the country. The destruction by fire of a building which produces an income for its owner reduces the wealth of the world by just the amount of its value. This loss may be distributed by the operation of insurance, but it is not made up. In no way except by insurance can disasters caused by death, fire, storm and accident be transferred from the individual to the community. To illustrate this principle by a common occurrence, let us suppose the following extract from a newspaper: "A fire broke out last evening in the building, No. 1 Main street, owned and

occupied by John Smith, druggist, and before the flames could be subdued the building and contents were practically destroyed. The loss is estimated at \$25,000. Insurance for \$20,000." To this may be added in explanation: By the prudence of the owner \$20,000 of this loss was distributed by the operation of fire insurance among a large number of other persons, whose individual contributions were so small as to cause no inconvenience, while the remainder falls upon the owner.

Another occurrence may be described as follows: "Mr. Joseph Robinson died yesterday from an operation for appendicitis. He had been connected with the First National Bank of this town for twenty years, during the last ten of which he was its president. He was a man of high character and marked business ability, to whom the success of the bank has been largely due. He had always enjoyed robust health until the attack which ended in his death at the age of 50 years." To this may be added by way of explanation: It is estimated by those in a position to know, that the loss occasioned by his death was not less than \$60,000. Insurance for \$10,000. In other words, \$10,000 of this loss was distributed by the operation of life insurance among many other people, whose individual contributions were not burdensome, while the remainder of the loss falls upon his family.

A stock corporation exists for the sole purpose of paying dividends to its shareholders who risk their money for no other object. Mutual life insurance companies and savings banks without capital are institutions of a wholly different character. They are owned and managed for the sole benefit of their policyholders or depositors. It must be assumed that they are engaged in legitimate and useful work and that they should be allowed to conduct their affairs without interference, so long as it is reasonably certain that they are guided by the laws of mortality and are managed intelligently. It will not be denied that it is the duty of the state which creates a corporation or permits it to deal with its citizens to enact such laws

as will be most likely to insure honest, safe and correct methods.

A life insurance company is made up of two distinct departments—that which conducts matters connected with the business of insurance, and that which cares for the investment of the funds which it holds for the final payment of its policy obligations. Its assets may differ materially from those of any other financial institution, because they are not liable to be claimed at any time by their owners, like those of a bank, nor will they be subject to the necessity of prompt realization as may be the case in a fire insurance company. Laws, therefore, which might be proper for the regulation of investments of a savings bank might be wholly unwise for the government of a life insurance company, by depriving its members of the benefit of the higher rate of interest obtainable on some investments without increasing their security.

DEALS WITH THE DISTANT FUTURE

A life insurance company is a peculiar institution. It has to deal with the distant future. Its contracts must rest upon an estimate of conditions which will prevail many years hence. While the elements which enter into its constitution are not at all mysterious, yet they are of a character which require a knowledge of many intricate problems which the average man has neither the time nor the facilities for investigating. The nature of life insurance is such that those who receive its protection must belong to a class whose prospects of longevity can be safely predicted. Its policy contracts must be protected by accumulations of property bearing a certain rate of interest, and assets rise in an extensive business to large sums. It is proper, therefore, for the state to prescribe a mortality table and a maximum rate of interest for computing liabilities. It is also wise that laws should be made for the guidance of those who are inexperienced in the handling of trust funds, or for the control of those who might be tempted to sacrifice safety for the chance of profit.

There are some things which laws can accomplish, and some which they cannot. Statutes may well be enacted at this time to prevent those who manage life insurance companies from employing the power placed in their hands for personal profit or advantage, from using the money under their control for any purposes whatever except to meet policy claims and the necessary and legitimate expenses of conducting the business, and from making false or misleading statements. It is true that laws of this character seem to be expedient at this time, although there are many companies whose record does not show any necessity for legal control in any of these matters. It may be proper also, in view of the peculiar nature of life insurance, and the necessity of large accumulations, to limit the business to be done when companies have attained a size beyond which they cannot safely and properly go in investing their funds and supervising their business.

PUBLICITY

The people have a right to know how companies are conducted, and the government can properly obtain and make public all reasonable details of the transactions and condition of those corporations which it has created, and to which have been confided trusts of a character so important and even sacred. But the law cannot create honesty and intelligence where these qualities do not exist. It cannot compel a safe selection or graduation of risks, nor can it make sure that each investment shall produce the necessary rate of interest and return the principal intact. It can do a great deal, however, toward making it unprofitable for dishonest men to engage in the business, and guiding the ignorant and incompetent.

No other laws than those indicated have appeared to be necessary or even desirable until a recent period. But circumstances have now arisen which seem to many to justify governmental control which under ordinary circumstances would be pernicious, demoral-

izing and an interference with those rights which free citizens should have in a civilized country.

NEW YORK METHOD IN 1905

On July 20, 1905, the Legislature of the state of New York appointed a committee "To investigate and examine into the business and affairs of life insurance companies doing business in the state of New York."

Under date of August 16, 1905, the committee addressed a circular letter "To the Life Insurance Companies doing business in the State of New York" in which the following statement is made:

"At an early date it is the purpose of the committee to request specific information upon certain subjects, and to proceed with the investigation. In the meantime any communications from you embodying suggestions which may tend to expedite the work of the committee they will be glad to receive."

Under date of November 18, 1905, the committee addressed a letter to companies organized in some other state, but doing business in New York, extracts from which are as follows:

"Mr.,

"President Life Ins. Co.

"Dear Sir:—In the course of the investigation by the committee of the Legislature into the affairs of insurance companies doing business in the State of New York, your company will very soon be reached. To facilitate our inquiry we would request your company to furnish the information mentioned below, the list being practically the same as that which domestic companies thus far examined have given."

Following this were numerous questions asking for records of annual meetings and meetings of directors and committees, lists of various securities, state-

ments of details of premiums, death claims, surrender values, dividends and many other items concerning the company's methods, both in its investment and insurance departments. Among other questions were the following:

"Any and all syndicate agreements entered into by the company or any officer thereof, relating either to the underwriting or purchase or acquisition of any securities during the past ten years."

"List of all contributions to political campaign funds for ten years last past, and payments in connection with legislation in any state."

The letter concluded as follows:

"The committee will be greatly obliged if these data are collected and sent to the counsel for the committee at your earliest possible convenience. We shall be glad to receive this information on or before November 25th. The exact date when we shall desire the attendance of yourself and your actuary we shall apprise you of a day or two in advance. It will probably be shortly after November 25th.

"Thanking you for your attention to these matters, we remain,

"Very truly yours,

"Chairman."

Answers to these letters were made to the committee. Their report is contained in a pamphlet of 442 pages. But one company outside of New York is referred to in the contents of the report. The various abuses which were discovered are set forth at great length, and taking these as a basis certain legislation was recommended.

THREE CLASSES OF COMPANIES

Without attempting to distinguish between those companies whose conduct has subjected them to the criticism of all right-minded people, and those whose

record has been one of a faithful observance of duty, the life insurance companies of the country may, for the purposes of this discussion, be divided into three classes:—

First, those which have reached a size where their accumulated funds are so great that they cannot be safely and profitably invested, and where their business is so vast and widely scattered that a greater volume cannot be handled efficiently and equitably for producing the best results.

Second, those which have attained sufficient size and strength to make certain the fulfillment of all obligations in a satisfactory manner, but which are seeking to extend their field of usefulness for the benefit of their members and the public by enlarging present agencies and establishing new ones.

Third, those which, lately organized, have not yet reached the point where the outstanding business is sufficiently large either to insure permanence or to produce reasonably satisfactory results, although, if carefully managed, they may develop into strong and useful institutions.

Each of these classes it is apparent should receive careful consideration in legislation, and these distinctions should be kept in mind if laws are to be wise and enduring.

It is probable that in the near or remote future the best interests of the general public will be served by the establishment of new companies. It is a costly matter to organize an office and plant agencies before a revenue comes in which will place such a company upon a sound and economical basis, even if the greatest skill, economy and honesty are to be found in the management.

An inflexible law limiting expenses to meet certain arbitrary and theoretical requirements may be a wise check to one class of companies, uncalled for but harmless to another, and destructive to still another.

AS TO MUTUAL COMPANIES

And it should be borne in mind, particularly, that a mutual life insurance company has no money except

that which it receives from its policyholders; also that this money is paid for certain well-defined purposes, namely, to meet policy obligations and to defray the necessary and legitimate expenses of conducting the business. When a person accepts a position in the management of an institution of this character, he may reasonably expect a fair compensation for his services, but he voluntarily withdraws from those pursuits where great pecuniary rewards are possible. It is not improper that the use of these moneys should be limited by law to the purposes for which they are intended by those who contribute and own them, because the actions of some persons are regulated largely by the fear of consequences.

It is clear that whatever laws are enacted should have a certain, definite and well-defined principle, as a basis, and before placing statutes upon the books, sufficient time should be taken by those who enact them to clearly understand not one side of a question, but all sides. The faults which have been found in the administration of life insurance companies should not be taken as the sole basis for new laws. Many mutual life insurance companies have conducted their affairs for the sole benefit of their policyholders; they have furnished to them sound insurance at reasonable cost; they have extended protection to those who needed it, performing a service to the public, without prejudicing the rights of their members; they have invested their funds safely and profitably without any personal benefit to their officers; they have selected their business carefully and equitably. Those who are framing laws should consider all these things before they take any action which may do damage without corresponding benefit.

A mutual life insurance company not only should treat its present members equitably and fairly, but it should select its policyholders in such a way that each shall pay a fair and equitable premium for the risk incurred. Mutuality does not consist alone in arbitrary rates and an exact distribution of theoretical surplus. No law can compel the managers of a mutual life insurance company to choose members from

a certain class, all of whom are in exactly the same condition as to their prospects of longevity. No law can be made which will result in the investment of money at high rates of interest without incurring any risk of loss. No law should be made which removes reasonable responsibility from the managers of a corporation.

PUBLIC OPINION

Much thought has been given to the matter of the control of mutual life insurance companies, and many plans have been devised seeking to give to the owners of these institutions the power to control the management. If life insurance could be carried on without the accumulation of assets, the temptation to obtain control of these institutions would not perhaps be very great, but the nature of the business is such that large amounts of property are necessarily accumulated for the payment of obligations running into the distant future. The control of these is a great temptation to those who could make use of them for personal advantage. In devising schemes for policyholders' participation in the election of directors, the dangers of improper control seem to be lost sight of. Much has been said of the power of a management to perpetuate its hold upon the institution. To those who consider this question carefully and in a broad way, it will be clear that a change in the management of a well-organized and honestly and skillfully conducted mutual life insurance company might be about the greatest disaster that could happen to its policyholders, and to prevent this is as much the duty of the managers as any other matter which must be considered by them. The changes which have recently taken place in the management of certain life insurance companies have not been brought about by the action of policyholders, but by the force of public opinion, and the changes which occur in the future, and which do not bring with them great perils, will not come about by the action of policyholders themselves, but by the opinion of right-thinking men,

whether they are interested in these institutions or not.

The law which was at first proposed by the committee of the New York legislature provided for the control of foreign companies in many ways, but upon a careful consideration of all the questions involved, it was so modified that foreign companies are not affected by its provisions, excepting in certain matters which have to do with the expense of conducting their business. It is clear that the state which charters a company should exercise whatever control it is proper that the law should assume, in all those particulars which have to do with its government and its management, excepting so far as a foreign state shall make requirements for fair business dealing and financial strength, but inasmuch as there are certain principles in this act which are being considered at this time, it may be interesting to take up three points of special importance.

As it has appeared, the peculiar nature of life insurance makes necessary large accumulations of property. These must be managed and controlled by somebody. A board of directors must be chosen either by stockholders or policyholders. Stock can be bought and sold, acquiring its value sometimes because of its earning capacity, and sometimes because of the value of the control of property which its ownership carries with it. No way has yet been devised for eliminating the dangers to policyholders which are always present in a stock life insurance company.

In what way can the danger of abuses in a mutual life insurance company be done away with by law? After a thorough discussion of this subject, the Legislature of New York has passed an act, affecting of course only companies of that state, which it would be wise for other legislatures to consider very carefully before enacting any similar law. The publication of lists of policyholders without the consent of those interested, and in many if not most cases against their wishes, may lead to results not in accordance with good morals or the best interests of those persons whose future the state is bound to pro-

tect. Policyholders will need leaders. Some will be found who are willing to give their time and money for the public good, but the question may well be considered: Who will be most likely to incur the necessary expense and for what purpose? No law should be passed which may bring greater dangers than those which it seeks to avert. Publicity and a strict accountability to the public officials, appointed by the various governments to inform the people of the conduct of the corporations coming under their observation, will protect the interests of policyholders far more effectually than any of the plans which have been devised for controlling these companies.

STANDARD POLICIES AND EXPENSES

The question of standard policies is one which has received much attention, and many have argued that inasmuch as fire insurance companies have been compelled to issue certain prescribed forms of contracts, similar requirements might result in benefit to the community if applied to life insurance. The cases are very dissimilar, for reasons which it is not necessary to detail. The development of life insurance has brought about many different plans for meeting the varied needs of those who seek life insurance as a protection for various persons under many dissimilar conditions. It may well be asked at the outset, then, whether there is a condition of things which demands a standard policy. Have people been deceived by the wording of these contracts to such an extent as to require the intervention of the law? If this is the case, then the best talent obtainable should be employed to arrange for the proper protection of the public. It is not too much to say that this talent is now to be found in the offices of the companies. If after the excitement has subsided it should appear that no real need exists, it is clear that the government should not interfere in the proper exercise of the right of contract.

The provision of the New York law which has

attracted the most attention is that which limits the expenses of all companies doing business in that state. Much can be said in its favor, especially as it applies to the companies coming within the first two classes already mentioned, but whether the regulation is wise or not will be decided by those who study it out, according to their views of life insurance—what it does and what it can do. If it is proper that laws should regulate the details of the existing companies solely for the benefit of present policyholders, many arguments may be advanced why the expenses of the various companies should be limited by law. If on the other hand life insurance performs a public service, if it is for the benefit of the state that people's lives should be insured, if the spread of this business encourages thrift, brings to the people a greater realization of the duty they owe to others, and especially the obligations of marriage, if the distribution of life insurance payments curtails the public expenditures to prevent crime and to care for the unfortunate, then it may well be carefully considered whether any laws should be enacted which would result in a check to the spread of this business.

GOOD NOT TO BE LOST SIGHT OF

It has been said that life insurance is a business and not a missionary enterprise, which is true to the same extent that it might be said of savings banks, but both classes of institutions serve the public in other than business ways, and if they are valuable agents in improving the general condition of the people, while the public money should not be spent in maintaining or developing them, it is clear that the law should not impose restrictions upon them excepting such as may be necessary for the protection of depositors in one and of policyholders in the other. No law can be wise, fair and useful unless it is based on facts, and unless its framers have a comprehensive and well-founded knowledge of all the circumstances which make it necessary. No such law should rest on the theory that all life insurance companies have

been conducted dishonestly, extravagantly or ignorantly, because certain officials of certain companies have been shown to have been guilty of all these offenses. Much good has been done by each and every one of these companies. Many similar institutions have been free from all of these elements, and have been conducted for the benefit of their policyholders. The evils which have been discovered and exposed have been made much of by the newspapers, and by well-meaning men, but the good has been lost sight of, in a measure at least, and has not had its proper influence in shaping public opinion and enacting laws. If we can discover the facts, right-minded men will not go far astray in making laws, although there may be honest differences of opinion as to the general subject of life insurance. Most of those who have spent their lives in observing the operations of life insurance companies believe that the institution has been a great force in educating the public, bringing them to the realization of their responsibilities and saving the governments of states and municipalities from much of the expense arising from crime and poverty.

It cannot be doubted that life insurance cannot be generally spread among the people, excepting through the work of agents. No life insurance company can accept all applicants and live, nor can it do equity among its members without making sure that they are practically on an equal footing as to their prospects of longevity, and therefore will contribute their reasonable share of the funds necessary to meet policy obligations. A savings bank need not inquire about the health of the depositors, but a life insurance company must ask many questions about personal and family history, and must cause an examination to be made of the applicant. These things cannot and will not be done excepting through agents who understand the necessities of the business. Wealthy men seeking to benefit their fellowmen have not yet devoted themselves to soliciting life insurance without compensation for the good that it will bring to the individual and to the state, although some of them perhaps might ac-

comply with great good in this way. The life insurance agent must have a living, and the policyholder must support him if the business is to be widely extended.

No matter what one's views may be on this subject, it will not be denied that companies should be held to a strict accountability, should, so far as possible, be required to be financially able to meet their obligations. If the sentiment just described is sound, however, then these companies should be left to their own judgment; they should not be taught to rely upon rules set forth from time to time by laws which of necessity are enacted by those who know but little of the principles of the business. The best results to the public, and for that growth of private virtue which is so desirable, will come from placing responsibility upon individuals who are supposed to carry it, and in requiring public officials to be sure that the laws are observed. Too many laws are worse than too few. Condemnation of wrong wherever it is found to exist is useful, but undeserved censure is disheartening. A man with a muck rake with his eyes eagerly scanning the low places is an important member of an investigating committee or a legislative body, but at his side should be one who sees the fields whose crops support life and whose flowers uplift and beautify it.

A PLEA FOR DECENCY

(In the Insurance Journal)

THE business of life insurance is as honorable an occupation as a gentleman can engage in. The officer who dictates the policy of a company or invests its funds, the clerk who performs the detail work in the office, the general agent who supervises the collection of premiums and the placing of policies, and the solicitor who urges upon the public the need of life insurance and the merits of his company, all contribute to the general cause. Each one is dependent upon the other, and no distinction can fairly be made between them so far as the character of their occupation is concerned. Surely any one in any way connected with this business should remember that he is a gentleman, and conduct his business as befits the character of a gentleman.

There is every reason why this most honorable business should be conducted on a high plane, and should command the unreserved respect of the public. And yet in the minds of many there seem to be doubts as to the purposes which animate the actions of those who conduct the fortunes of the life insurance companies. These feelings find expression in the unfriendly attitude of some newspapers, a prejudice which frequently exists against the institution in the courts, and the laws which are enacted by the various state legislatures. The reason for this hostility can be traced in part, no doubt, to the thoughtless and unreasoning prejudice against corporations controlling large amounts of money; but there are other causes for which life insurance men themselves are directly and definitely responsible.

A need which can be filled in no other way exists for life insurance, and the agent naturally and properly emphasizes this in the course of his daily occupation. This argument, properly presented, should elevate the business and inspire confidence in

it. The agent, furthermore, represents the merits of his own company, and explains how its particular forms of policies will meet the peculiar needs of the person whom he urges to become an applicant for insurance. But he does not always stop here.

A letter, from which were taken the following extracts, was recently addressed by the general agent of a great company to a man who was being urged by an agent in his employ, and one representing another company, to take a policy on his life.

"At the request of Mr. ———, I desire to state very briefly the points of advantage of the A company in comparison with the B company. First of all, the B company has been for a good many years under a cloud, and serious anxiety was felt for its safety; and while now I think that anxiety has been removed, and its present managers are doing all they can for it, . . .

"This arises from the fact that a much larger part of their insurance is paid up, and brings no income, by reason of their members getting discouraged or disgusted, and taking paid-up insurance, . . .

"A firm in liquidation may have more of its money in hand than one in active business, but may be, and generally is, a very weak concern. . . .

"This will be your money loss, besides a far inferior company. If you feel justified in making this loss to promote the interest of your friend, of course that is a matter for you to decide."

The gentleman to whom this letter was addressed took his insurance in the B company, no doubt reasoning that the agent who would make false statements to bring disrepute upon a strong and prosperous institution, which the B company unquestionably is, would not hesitate to falsify the figures which he represented in favor of his own company.

This is not given as an exceptional or by any means an extreme case, but it is a fair sample of the methods which are often practiced in the business. Whether or not the course is successful in an individual case, it does not end there; for a seed is sown which sprouts and bears the fruit which might fairly

be expected. The popular mind is disturbed, and discredit and doubt are cast upon all life insurance, for the man to whom such statements are made will presently come to think that the whole structure is built upon frail foundations.

Sound business rests upon honorable methods, upon truth, upon decency, and that company which is to be permanently successful will tolerate no one in any department who will under any circumstances, and for any gain, either permanently or temporarily, act the part of a blackguard.

LETTER TO AN INSURANCE COMMISSIONER

December 20, 1906.

Dear Sir:—In a recent conversation with ——— he suggested that I should write you expressing some opinions which I hold on the subject of deposits by life insurance companies in various states, and it is for this reason that I venture to communicate to you some thoughts which I expressed to him.

This matter must be viewed from two standpoints—first, that of the company affected by any requirement of this kind, and second, that of the state whose representatives propose it.

First: A mutual life insurance company is organized and conducts its business for the sole purpose of furnishing sound insurance to its members in an equitable manner, and at as low a cost as is consistent with safety. All the policyholders should be on an equality not only as to rates and dividends, but also as to personal conditions and prospects of longevity. To accomplish the best results the membership should be drawn from a considerable territory and great care should be used that strict equality is preserved in selection of risks, to the end that no one member shall get more for his money in the shape of insurance risk than another, and especial care must be used that these risks are of a character which will not experience even in the distant future a mortality greater than that provided for in the tables upon which the business is based.

The funds of such an institution should be invested in the most careful manner possible, that losses shall not be such as to imperil the financial strength at any time even in the distant future. Life insurance premiums are based upon the receipt of some fixed rate of interest, and some of the policies now being issued will still be in force from half to three-quarters of a century hence. Such a company's investments must, therefore, be made at a rate of

interest which will certainly be more than that assumed, after making due allowance for investment expenses and losses. Restrictions as to where and how these funds shall be invested may serve, therefore, to either imperil the principal or reduce the rate.

A mutual life insurance company should have no preferred class of policyholders. It should be managed from a central office, to which every member should look for the carrying out of his contract not only in the letter of its actual terms, but with the most favorable results possible. Its funds should always be held available for all its policyholders, and it cannot place various properties in the hands of public officials at different points without inconvenience, expense and possible loss. With laws requiring the deposit or investment of reserves in states whose citizens contribute them, it is not easy to see how any mutual life insurance company could do a general business throughout the country with a due regard to the best interests and rights of all its policyholders.

This company has for many years enjoyed a high rate of interest. Among other investments we now have more than 8,000 mortgage loans in many different states, and the past three years there has been but one foreclosure. Our policyholders have enjoyed the favorable results accruing from these investments, which have been made as the result of the study and experience of the mortgage loan business for the past forty or fifty years.

It has been urged that life insurance companies concentrate wealth and deprive one section of money for the benefit of another, and especially of those places where the home offices are situated. I do not think that this is well founded. This company has been doing business in Connecticut for fifty-five years and has a large amount of insurance outstanding on the citizens of this state. Our mortgage loans on property in Connecticut have never been over \$150,000, and now amount to \$105,000, and we have not made a single new loan for a good many years. We have no state, city or municipal bonds in New England, and it is our settled policy to invest the company's

money where it will be safest and produce the best return. In some states our investments are far greater than the reserve on policies; in many they are much less, but we feel that legal requirements as to the places in which we shall do this business would hamper us and result in loss to our policyholders. For these and other reasons, it is clear to me that our members will fare best if there are no restrictions as to where our investments shall be made and where our securities shall be deposited.

Second: While these considerations may be well founded from our standpoint, I recognize that they may not of necessity control the action of a legislature seeking to serve its own people, unless reasons can be advanced why the interests of the company and the state can both be guarded.

I am firm in my conviction that it is best for any community that life insurance should be spread among its people, for I believe that their character will be elevated, that they will be better citizens, and that the public expense of jails, almshouses and orphan asylums will be diminished as life insurance is spread abroad, and, therefore, that the companies honestly furnishing sound insurance should be encouraged, and should not be regarded in any way as enemies of the state and its people but rather as their friends. It is true that some portion of the premiums paid by the public go out of the state, but it is best to remember that by far the greater part of these payments are returned from time to time or will be in the future, excepting of course those portions which are used in the necessary expenses of conducting a home office which cannot be avoided in any way. Moreover, it seems to me well to consider whether laws can be made which will affect the general supply and demand of money, and which will in the end benefit any state adopting them. Capital seeks investment where it can get good security, and the best rate of interest. It is possible that a state may compel certain corporations to invest certain moneys within its borders, but this will create a fictitious condition of affairs which

will not be permanent and which will not work to the advantage of the commonwealth.

I fear that much of the sentiment which has brought about these suggestions of special deposits and other ideas has sprung from the disclosures of wrong doing in life insurance companies, but I contend that this feeling should not have any weight whatever in a question of this kind.

It is proper to make laws regulating the affairs of corporations, imposing penalties for wrong doing, requiring publicity, but the great question affecting investments should not be considered in any way excepting upon a broad reasoning and upon the assumption that a mutual life insurance company performs a service to the public.

Very truly yours,

JOHN M. HOLCOMBE,
President.

THE MONEY VALUE OF A HUMAN LIFE

(In the North American Review)

THAT which we call a human life has always been recognized as having to its possessor, and perhaps to others by reason of affection, a paramount and immeasurable value. That it may have also a money value has been acknowledged in various ways, notably in the institution of slavery. From early times the ownership of the services of a human being has had a worth in accordance with the excess of earnings obtainable above the necessary cost of subsistence. This value has not usually been computed with accuracy in each individual case, but in a general way a price has been fixed for a slave, taking into consideration his age, physical condition, and capacity for the kind of service desired of him.

It is clear, however, that certain important elements are either wholly lacking or but partially developed, in the case of the life of a person held in bondage, which may be present if the possessor of the life is free and independent. Self-interest, ambition, and family ties are needed to develop the highest value of a human life, and it is my purpose to show that such a life has qualities which may impart to it a worth as real and as ascertainable as that of other property.

In the markets of the world, that which is commonly known as property depends for its value upon what can be obtained from it over and above the cost entailed by its possession. Sometimes this surplus is sure and constant; sometimes it is uncertain and fluctuating, and sometimes it is wholly prospective. In fixing the price all these qualities will be considered, and the result will rest upon a combination of probabilities. The purchaser of a business block, for example, will calculate the rentals on the one hand, and the taxes, repairs, and

necessary expenditures on the other. The remainder will show upon what sum as a principal this will offer a fair return as compared with other investments. But this is not all, nor, indeed, is it the most important consideration. If the building is composed of, or surrounded by, inflammable materials, so that the hazard of its destruction by fire is great, its value will be seriously and unfavorably affected. It is true that institutions have been organized to distribute such losses, but as the property-owner must pay for protection his full share of the risk, which will be accurately and intelligently estimated, the value which his building would have, were it not for this hazard, will be diminished by just the chance of that contingency. The present condition of the structure, viewed in the light of natural decay and its adaptability to the needs of the location and times, will demand intelligent discrimination.

The amount, therefore, which an investor will pay for the block will be determined by his knowledge of what it now produces and his estimate both of what it will yield in the future and the time when, either by gradual deterioration or by sudden accident, it will become unable to afford an income. If there can be obtained from it more than will suffice to meet necessary expenditures, then the property has an actual value which will vary according to the estimate that may be made of its future. That neighborhood which to-day attracts business by the elegance of its buildings or its nearness to lines of travel or transportation may to-morrow be swept by fire or damaged by changes in modes of conveyance. No human foresight can provide with certainty for these contingencies, but the general future of a section is estimated by the careful student of the laws underlying commercial transactions, with an accuracy which, on the whole, enables him to reap the profits that legitimately belong to high intelligence. In the change of ownership the purchaser thinks that he is receiving more than an equivalent for his money; else he would not buy. The seller differs as to the probable future, and

believes that what he now receives will be of greater value; otherwise he would retain his possession. The result, in almost any particular transaction, will show that one or the other has materially erred in his estimate, but, as a whole real estate, or any other property which is valued for its income, will be found to conform to the general law which governs the value of money.

Can human lives possess attributes which will give to them real values? It would not be difficult to enumerate many lives which cannot be considered of any pecuniary worth, because, for various reasons, they produce nothing. Such are those of the very old, the imbeciles, and the confirmed invalids. But our purpose is to show that a life surrounded by fairly supposable circumstances, such as exist in every community, has a definite value.

Every man who earns or produces more than suffices for his actual personal expenses is of pecuniary value to some one besides himself. It may be that a family is dependent upon him for support, or he may accumulate his surplus income for the benefit of heirs or charity. No matter what the purpose is, there is a value to someone in his services. Suppose he has earned \$2,000 during the year, and his food, clothing, shelter, and other strictly personal expenditures have amounted to \$500. Then clearly he has been of the value of \$1,500 to someone during that time. We can measure the value of the years which have passed. Can we estimate with accuracy those which are to come?

Careful observations, extending over many years, in widely-separated countries and among various nations, have demonstrated that the mortality of the human family is governed by a law which is constant in its operation. That inevitable power, death, working through its numberless agencies, by disease, accident, and violence, and seeming to seek its victims by chance, is ruled by an intelligence which preserves the balance of population, directs the laws of supply and demand, and

renders possible the various calculations upon which the commerce of the world is based.

The most extensive compilations of statistics, and the most precise calculations which have been made in search of the law of mortality, are those derived from investigations among what are known as selected lives or those which are unimpaired by hereditary taint, and are found by the examination of physicians to be practically free from disease. A mortality table was constructed in 1843 from careful observations among a large number of such lives whose course could be accurately traced, and numerous more recent investigations have served to confirm the substantial correctness of the death-rate which was then shown to exist.

Let us suppose that the man whose surplus earnings are \$1,500 a year is thirty years of age and in good health, and that money is worth 4 per cent. per annum. By the mortality table, to which allusion has been made, the present value of the future surplus earnings of this life is \$25,560.

It is true that this value is based on averages, and that the assumption that he will, through his life, receive and spend just the amounts here set down will not probably be realized. It is well-nigh certain that his death will occur either before or after the date here fixed. Disease or accident may rob him permanently of his productive power. Circumstances which no skill guided by research can calculate, and no judgement foretell, may change the current of his life, and enhance or diminish the values of his efforts. And yet this value rests upon a foundation composed of elements no more uncertain than those which determine the worth of the business block. Both the building and the life are constantly exposed to the danger of destruction, but that chance can be measured even more accurately in the latter case than in the former.

The natural ability of one man is greater than that of another, and this advantage will be shown in the value of their respective services. These

qualities, as well as those of industry and perseverance are inborn traits, and will, considered in connection with education and training, determine the amount for which the possessor can lease his efforts to others or employ them for independent profit. What nature has done for the man corresponds with the location of the building. What experience has taught him is like the quality of the structure. In each case there are certain necessary expenditures which must be met before any real value can exist, and in each case the worth rests upon estimates.

Calculate the value of your life from the following table:

Present value of future surplus earnings of \$1,000 a year at different ages.

Age 20, \$18,451.00	Age 36, \$15,948.00	Age 52, \$11,884.00
21, 18,329.00	37, 15,744.00	53, 11,585.00
22, 18,204.00	38, 15,534.00	54, 11,283.00
23, 18,075.00	39, 15,317.00	55, 10,978.00
24, 17,941.00	40, 15,093.00	56, 10,670.00
25, 17,803.00	41, 14,861.00	57, 10,359.00
26, 17,660.00	42, 14,621.00	58, 10,046.00
27, 17,512.00	43, 14,374.00	59, 9,731.00
28, 17,360.00	44, 14,119.00	60, 9,415.00
29, 17,202.00	45, 13,857.00	61, 9,098.00
30, 17,040.00	46, 13,590.00	62, 8,780.00
31, 16,872.00	47, 13,317.00	63, 8,464.00
32, 16,698.00	48, 13,039.00	64, 8,149.00
33, 16,520.00	49, 12,757.00	65, 7,835.00
34, 16,335.00	50, 12,470.00	
35, 16,144.00	51, 12,179.00	

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